AMERICAN BANKERS
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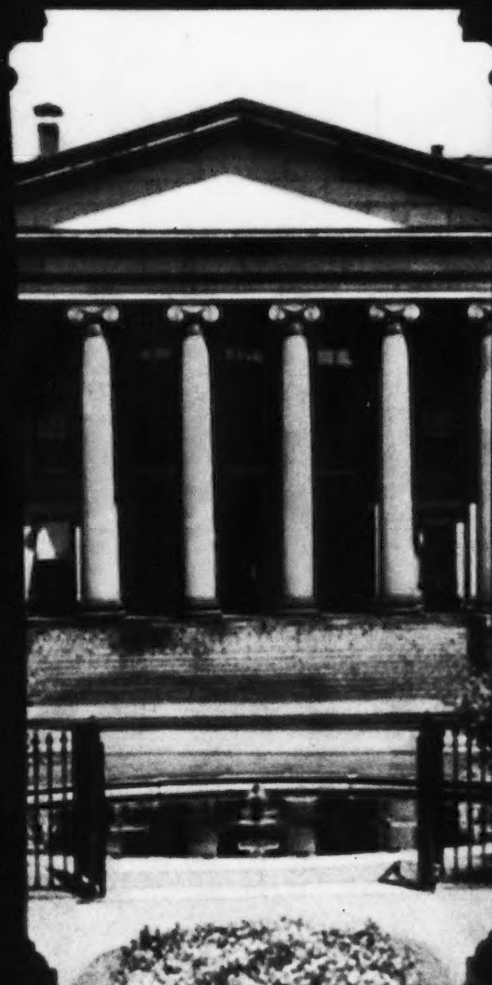
JOURNAL



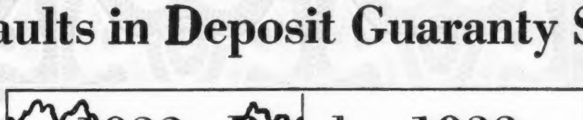
olumns of the ederal Treasury en from the st entrance to e White House

There can be no more sacred obligation on the agents of the nation than to safeguard public credit.
—Alexander Hamilton

DECEMBER

Competition Between Banks

Basic Faults in Deposit Guaranty Schemes



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Behind the Bond News

THE several uncertain elements in the financial situation have in recent weeks dampened somewhat the reviving confidence which the bond market had been exhibiting. Prices have had none of their late summer buoyancy, new issues have been brought out in lesser volume and trading in listed and over-the-counter issues has decreased nearly one-third. In October, the most recent month for which complete figures are available, the volume of dealings in all classifications of bonds on the New York Stock Exchange declined to the lowest level for any October since 1917. The October transactions, indeed, were slightly less than 50 per cent of the total for the same month ten years ago.

Uncertainties weighing down the bond market in the month under review have for the most part been peculiar to an election year rather than a depression. It is significant that the steep rise in bond prices which began in mid-summer reached its peak around the first of September, when national, state and municipal election campaigns were getting under way in earnest. The premonitions of widespread changes in political authority, in the month preceding the elections, were a deterrent to a continuation of the price rise, and since the elections the caution which had been implanted in the minds of business men and investors was but little removed.

GALLOWAY

STATE AND CITY ISSUES

WITH the elections over, one set of problems, from the standpoint of the bond market, was substituted for another. November 8 removed only the uncertainty about names; the uncertainty about politics has remained. Bond markets do not thrive on uncertainties.

The election had the tangible result, however, of winning authorization for $100,000,000 of state and municipal bonds. Several of the issues approved by the voters were of the first importance, and over the course of the next few weeks the market will be called on to absorb some of them.

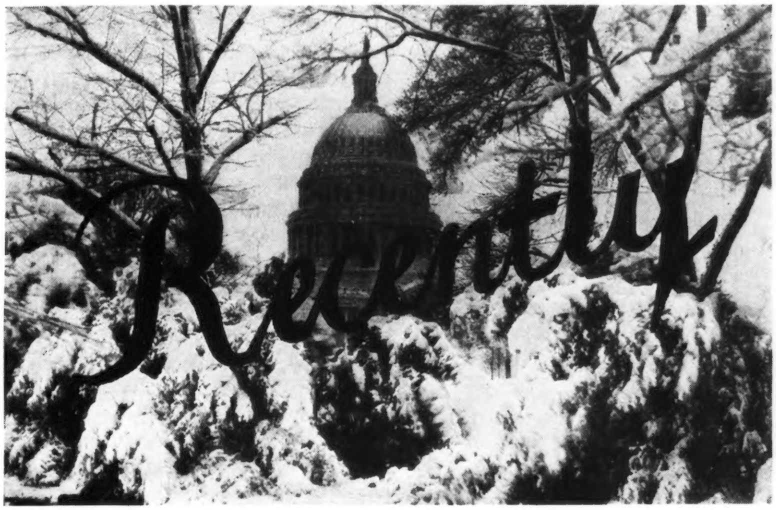
Well to the fore of the issues approved by the electorate was $30,000,000 of New York State bonds for the extension of unemployment relief for another year. These bonds, together with $20,000,000 to $25,000,000 in other state bonds, probably will be offered shortly by the state comptroller. New York State has a credit status but little below that of the Federal Government, and its bonds have been dealt in recently around a 3.30 basis. This is about ½ of 1 per cent better than state and municipal issues generally. The state of New Jersey was empowered by the voters to transfer $20,000,000 in bonds to emergency relief purposes from the already authorized highway bond issue. New Jersey probably will market half of the $20,000,000 issue next month, and Illinois is to sell soon the $20,000,000 issue of bonds authorized by voters.

The difficult times through which the country is passing, with a good many people urgently in need of assistance against the rigors of winter, make relief issues on the part of states and municipalities unavoidable. It is time, however, for the responsible state and city authorities to give more attention to the financial aspects of the problem with which they have to deal. In the first place, it is advisable that the authorities do not undertake the sale of bonds that are not the general obligation of their political subdivision. It is distinctly ill advised to try to place relief bonds in a special category apart from the rest of the obligations and perhaps serviced by special sources of revenue.

RELIEF BOND POLICY

INVESTORS, it is but natural, look askance at issues that are frankly and specially for relief, as the fear often arises that the borrower may let its financial perspicacity relax if the funds are to be obtained for humane purposes. Overissue for relief purposes carries the threat of injury to credit, thus making all borrowing more expensive and decreasing the ability to extend relief. When one of the country's most highly regarded men attempted not long ago to have New York City's relief bonds set apart from the rest of its obligations and handled separately, the bankers firmly opposed the plan. Investment bankers have discovered from experience that buyers look with a dubious eye at a relief issue that is not a general obligation of the borrower.

Bankers are beginning also to urge on state and municipal borrowers the wisdom of putting their relief financing on a sounder basis in still another respect. Funds borrowed for relief work represent an emergency transaction, and the bonds preferably, bankers believe, should be retired in fairly short order, say in about seven years. Unpleasant as the fact is, experience shows that depressions have a habit of recurring about every ten years. If relief issues are to accompany depressions, it is better that bonds issued in one period of slack business to relieve the wants of the needy be retired before another depression develops. Bankers have discovered among investors a greater resistance to relief bonds which have a (CONTINUED ON PAGE 69)



BANKING, GOVERNMENT, RECONSTRUCTION

THE Investment Bankers Association opened its annual convention at White Sulphur Springs, West Virginia, on October 21. It was told by its president, Col. Allan M. Pope, that if American bankers had not re-exported capital during the post-war years through the flotation of foreign loans, the internal over-expansion in practically all lines would have gone even further. The committee on business trends reported that the stability of the American dollar was "the greatest factor in world economy today."

Government expenditures from July 1 to October 1, it was reported on November 2, were $1,196,772,093; receipts were $566,883,000. The deficit was $629,880,093, against $674,575,960 a year ago. The 12 home loan banks opened for business on October 14. With an initial capitalization of $134,000,000, the system will tap a reservoir of $1,500,000,000 in credit. Loans made by the Reconstruction Finance Corporation from its formation on February 2 to September 30 were more than $1,500,000,000, it was reported on October 20. During the last three months, repayments totaled $108,000,000 out of $185,000,000 for the entire period. Demands for R. F. C. funds in September fell to $137,346,002, a reduction of $50,000,000 as compared with August.

BUSINESS

THE Senate Banking Committee decided, according to an announcement made on October 12, to investigate the Insull receiverships. The receivership of the Interborough Rapid Transit Corporation in New York was voided on October 13 by Judge John M. Woolsey of the Federal district court. He held that Senior Judge Manton of the circuit court had usurped the powers of the Federal district judges in placing the road in receivership. The call loan renewal rate was reduced in Wall Street on October 13 to 1 per cent, leading a general downward revision in money rates to the lowest levels in history. American Telephone and Telegraph reported a net income equal to $5.92 a share for the first nine months of the year, against $7.01 a year ago and against dividend requirements of $7.25. Increases of 3.6 per cent in employment and 2.6 per cent in payrolls were announced by the Labor Department on October 15 for the month of September as compared with the previous month. An open petition signed by 180 economists was presented to President Hoover on October 16, urging him to use his official power under the flexible provisions of the Hawley-Smoot Act "to remove inequalities, especially those causing retaliation abroad."

The crude oil industry, according to a statement issued on October 18 by the Federal Oil Conservation Board, is the first basic industry to emerge from the depression. The Manhattan Company, it was announced on October 19, has reverted to its old status as a bank, distributing to its shareholders ownership in the New York Title and Mortgage Company through the medium of a holding company. The principal rail-making steel companies announced reductions in prices on October 20 from $43 to $40 a ton. There had been no change in the quotation on standard rails previously since October, 1922.

General Motors reported on October 21 a net loss from operations for the third quarter of $4,464,229, and a net loss after preferred dividends of $6,808,436. After common dividends the total

deficit was $17,683,436. Sterling culminated a two weeks' decline in the foreign exchange market on October 26 by touching $3.27½, a fall of 17 cents. United States Steel Corporation directors voted on October 25 to continue the regular preferred dividend, maintaining an unbroken record of 31 years. The quarter's deficit, however, was the largest in history, $27,176,628 after dividends.

The Federal Reserve index of industrial production advanced 10 per cent above seasonal amount, rising from 60 to 66, according to an announcement on October 25. Consolidated Gas Company of New York reported on November 1 earnings of $4.36 a share for the 12 months ended September 30, against $5.09 for the previous corresponding period. General Motors, on November 2, declared its regular dividend of 25 cents. Gross revenues of the class 1 railroads, according to the Bureau of Railway Economics, earned 10.4 per cent less in September than a year ago, net.

The monthly figures of the New York Stock Exchange show that the aggregate value of all shares listed there fell $3,294,166,840 in October, to $23,440,661,828. Steel ingot output, according to the report of the American Iron and Steel Institute published on November 7, was up in October for the fourth month, although for the ten months of 1932 it was only half the 22,299,860 tons of the same period last year. Meeting in New York on November 10, the Association of Railway Executives voted to seek relief from the Interstate Commerce Commission from the necessity of lending all funds made out of the recent 10 per cent rate rise through the Railroad Credit Corporation to indigent lines.

DOMESTIC

LEADING bankers in New York City notified Comptroller Charles W. Berry, on October 15, that they would not lend the city more money unless the Board of Estimate made good its promise of last January to frame a substantially reduced budget. A cut of $75,000,000 was effected, two-thirds of it by a rearrangement of the financial set-up of the subway system. The banks advanced $18,500,000 on October 30, but warned that no more would be forthcoming unless economies were shown. A $557,000,000 budget was adopted on October 31, with Mayor Joseph V. McKee and the bankers—to whom the city must come for $200,000,000 on December 15—describing it as wholly unsatisfactory.

Senator Borah, speaking at Shelley,

Idaho, on October 19, urged the issuance of $5,000,000,000 more money.

Brigadier General Pelham D. Glassford, who gained prominence as superintendent of the Washington police during the bonus riots, resigned on October 20 in protest against the refusal of the District Board of Supervisors to uphold his plans for reorganizing the department. Samuel Insull, former Chicago utilities magnate, was detained by the Greek security police on November 4 at the request of the U. S. Department of State.

ELECTIONS

SURPASSING in importance any other single world event during the past month was the triumph of Governor Franklin Delano Roosevelt, Democratic candidate, in the Presidential election on November 8. Although he rolled up 14,700,000 votes, President Hoover captured only six states and won but 59 ballots in the Electoral College, against 472 for his Democratic opponent, whose popular vote was 20,750,000.

The Congressional overturn was equally emphatic. When the new President enters the White House on March 4 he will boast the greatest party strength any executive has enjoyed since the early days of the Republic. The Democratic majority in the House will be more than 200, while the new Senate will be comprised of 59 Democrats, 36 Republicans and one Farmer-Laborite.

LEAGUE OF NATIONS, DISARMAMENT

THE United States, on October 21, accepted a proposal of the general disarmament conference for an extension of the truce on new construction for four months, or until March 1, 1933. On October 26, the eve of Navy Day, President Hoover declared that the failure of the disarmament conference would compel the United States to build its navy "up to the full strength provided in the London agreement", and "equal to the most powerful in the world."

France, it was reported on October 28, will propose at the next meeting of the conference the abolition of the German Reichswehr and the substitution of national defensive militias by all European countries for regular armies; also, for consultative pacts, compulsory arbitration, and compulsory control of armaments. According to the British viewpoint, as reported on October 27, President Hoover's proposal for a one-third reduction in armaments will probably be the foundation for whatever is done at Geneva.

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A Sound Basis for
Banking Competition

By JAMES L. WALSH

THE October number of the JOURNAL contained a thought-provoking article on "Banking Cooperation". The necessity for sincere, cordial teamwork by bankers was pointed out—in such widely differing fields as restoring public confidence in banks, defeating destructive legislative proposals, resisting encroachment of Government in the banking field, reducing interest rates on deposits, eliminating unprofitable accounts, actuarial analysis of loan loss ratios, development of sound investment policies, combating criminality directed against banks, opposing inequitable confiscatory tax measures, improvement and standardization of operating methods, and other fields.

Fine. Banking is, in many respects, a cooperative business—but it can never become completely so. In a way, this is fortunate, because cooperation can be carried to extremes and become a vice. As a matter of fact, most vices are virtues carried to excess, as a great midwestern banker once sagely remarked. Thrift practiced to excess becomes miserliness. Courage carried to extremes becomes recklessness; and conservatism, stagnation.

And so, an unbalanced diet of cooperation may well breed regimented thinking, intellectual laziness, inability to cope with the unusual or unexpected, and eventual dry-rot. The energizing spark of competition begets the urge to push back the frontiers of the impossible and the courage and resourcefulness to accomplish it. Competition is life itself.

Perhaps the most "kolossal" example of cooperation was the big push organized by the German high com-

"Let us hope that the spirit of competition still lives, and that it will continue to stimulate success and accomplishments—to the end that the cataclysmic events of the past few years may yield even safer, and stronger, and sounder banks, and a race of competent bankers to run them." Mr. Walsh, who is executive vice-president of the Guardian Detroit Union Group, Inc., believes that a balanced diet of cooperative and competitive action is required

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Cooperation finds itself in fullest flower in protecting the depositor at sacrifice of self. But, cooperation which seeks to preserve monopoly of credit, or condones conditions inimical to the depositor's interest, is inexcusable and self-defeating.—*The Author*

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mand in the winter and early spring of 1918. The major strategy was well conceived—an overwhelming concentration of shock troops opposite the junction of the British front and the French front, a "break-through" between the British and the French, thus effecting a complete separation of these two armies—preparatory to driving the British back to the Channel ports, and eventually crowding them into the sea. Plans were laid well in advance; troop movements were figured out to the split second; ammunition and supplies were accumulated in unheard-of quantities with unusual precautions taken to prevent discovery; every possible contingency (except one) was thought out in advance and provided for.

Detailed instructions to division commanders were comprised in a closely printed book an inch and a half thick. What to do, when to do it, and who was assigned to do it—all worked out beautifully. The various units were especially rehearsed in the rôles they were intended to play. Equipment and supplies were provided down to the last spare suspender button.

The British Intelligence Service pierced the fog of war, learned the major dispositions, the principal points of attack, even the approximate time of the expected onslaught—but too late to adopt effective measures in opposition.

Well, everything went off according to Hoyle. Successive waves of a dust-gray tide overwhelmed the first-line trenches and the second-line trenches, rolling back outposts upon main bodies, main bodies upon supports, supports upon reserves—in a gradually widening breach 50 miles long and 30 miles deep. The German "order of battle" had proved itself a marvel of coordination and cooperation, on a scale hitherto unknown, but it was a flop.

With open fields and well paved roads in front of them, and only scattered remnants of Gough's British Fifth Army to oppose them, the German division commanders looked in their fat little books for guidance—something to tell them what to do—and they looked in vain. Success had been achieved, ground had been won beyond the wildest dreams of the Imperial High Command—and that was the one contingency they had not provided for. Worse, in providing such elaborate mental crutches for their division commanders they had stifled initiative and atrophied resourcefulness.

At this stage, General Sandeman-Carey gathered around himself a motley array of cooks armed with meat cleavers, American engineer labor troops armed with long-handled shovels, with a sprinkling of regulars from hospitalization and training centres, and successfully stemmed the tide.

Nearer home, it is worthy of note that the excessive emphasis upon teamwork which characterized all World War activities lead the authorities of the United States Military Academy at West Point to inaugurate a comprehensive program

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Isn't our real problem, as bankers, so to strengthen the banking structure that demagogues will have no warrant to socialize further the business upon which we depend for our livelihood?—*The Author*

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of intra-mural athletics, in an avowed attempt to restore the competitive spirit to its proper place. Each cadet was required to go out for one major sport, such as football or baseball, as well as a strictly individualistic type of athletics such as fencing, boxing or wrestling.

Business today recognizes that "no competition is the worst competition of all". The impact of science keeps the business world in flux, waiting on tiptoe for first flashes from the limitless realms of intellect, gallant sorties into the unknown, where mortal mind has never gone before. Research creates new industries — and destroys entrenched monopolies—its future possibilities surpassing all human computation. In the quickened tempo of today, complacency has no proper place. Business rewards the forward look.

Today 22,000,000 motors provide individual transportation for an entire nation. Radio in a split-second carries whispered words around the world; and television looms just around the corner. Droning airplanes dot the skyways and our 48 sovereign states shrink to one-fourth railroad size. Communication and transportation are constantly accelerating the pulse of business.

Mendicant governmental units confiscate private property as the price of their continued existence. Shall we allow the structure of government to "set" in its present capital-consuming ramifications? Are we not slipping resistlessly into the slough of state socialism, and gradually substituting "a people supported by the government" for the "government supported by the people" which our forefathers bequeathed to us as a priceless legacy?

Ten years ago, 30,000 banks, and now, less than 20,000. Within a decade, 10,000 banks have closed. This reduction in the number of banks has been one result of our moving out of the horse and buggy age. The automobile gave us a radius ten times as great, and a territory 100 times as large. Will aviation, still further annihilating time and distance, bring corresponding changes during the next decade? Are we to decry the spirit of competition which seeks to strengthen the banking structure against the inexorable demands of economic progress?

Have these 10,000 bank failures given socialism in banking its long awaited chance to urge direct governmental loans to farmers and to householders, Federal Reserve bank loans to individuals and corporations, in competition with our commercial banks, with a socialistic guaranty of bank deposits looming up on the horizon?

Uncle Sam himself is today the world's biggest banker, using taxpayers' money provided in part by the banks themselves to make loans at low rates of interest, perhaps tacitly encouraging resistence to payment of either principal or fair return on funds invested. A temporary expedient, perhaps, but bureaucracy seldom changes its spots. History yields few (CONTINUED ON PAGE 59)

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There are 250,000 units of government in the United States, one unit for every 50 men, women and children. Each unit has power to issue bonds and levy taxes. Eleven layers of government, on the average—with the power to tax, and, therefore, to destroy.—*The Author*

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The War Debts

A Problem Which Cannot Be Avoided Much Longer

By
GEORGE E. ANDERSON

IT REQUIRED no seer to predict that with the passing of the national election in the United States the intergovernmental debt issue would be revived in perhaps its final form. Nor has it required any great astuteness to realize that in whatever form the issue would be precipitated it would be with substantial agreement between the debtor nations as to the substance of their representations.

Previous to the Lausanne Conference in June the Government in Washington gave notice that it would view with high disfavor any combination among debtor nations looking to united action as against the United States. To an agreement among the debtor nations themselves with respect to their obligations, however, there could be no proper objection. Hence the nations in conclave at Lausanne came to an agreement.

On the face of the record they agreed to cut Germany's reparation payments from mythical billions to the equivalent of $714,000,000 to be paid if and when Germany could pay it. Behind the record they made this agreement dependent upon debt revision or cancellation by the United States. They further agreed, with or without the connivance of Washington, that the issue would not be presented until after the national election in the United States. Within one week after the election, with the tact and diplomacy of a sledge hammer, they presented the issue.

It is all inevitable, of course. Germany's inability to pay further reparations, certified to by international commissions and economists of the highest authority, rendered the agreement at Lausanne inevitable; the agreement at Lausanne rendered American action of some sort inevitable. Indeed the whole question for the past two years or more has centered in what the United States was going to do about it. In approving the Hoover moratorium of last year Congress specifically prohibited the President from making further concessions of the same sort without previous authority from Congress.

Both parties in Congress are on record on opposition to debt cancellation or revision. President Hoover has repeatedly opposed cancellation. The Democratic party platform in the recent campaign declared against it. Nevertheless there has not been the least doubt in the minds of any one conversant with the situation that,—call it revision, cancellation or what you will,—adjustment in some form is inevitable.

Since the Lausanne conference was postponed until after the French elections and the main issue was postponed until after the American elections there is a general feeling that politicians have been dodging the question. The brutal truth is that they have. Nevertheless it is just as well, perhaps, that such has been the case. French concessions at Lausanne would have been impossible in the face of a national campaign. The elimination of the debt issue from the American campaign was wise for a similar reason. In essential respects the matter at issue is in no degree partisan. At all events it would have been impossible to settle a complicated question of this sort as a result of a heated campaign. The passing of the campaign gives the country an opportunity to consider the question on its merits.

First of all the nation is face to face with the necessities of the case. Germany secured a revision of reparations by an open confession of its inability to pay,—bankruptcy by another name. Great Britain, France and other debtor nations present their request for a reexamination of the matter without an open confession of the same sort; yet the implications are inescapable. Logically they indicate that if revision cannot be had by agreement it may be had by default. The primary, the real reason, for asking a reconsideration of the debt agreement lies in the necessity of writing off the reparation account with Germany. The United States has consistently refused to accept the premise that the debts due it from Great Britain, France and other allied powers are dependent upon German reparations payments but the plain fact of the matter is that in the present state of European finance the two are actually interdependent.

There are also new reasons for revision. As a result of low commodity prices the amount of exports necessary to make the usual payments to the United States—and these debts are paid in goods and not in gold—has been immensely increased. As a result of the depre- (CONTINUED ON PAGE 54)

In The Spring, 1923
The Honorable Stanley Baldwin, then Chancellor of the Exchequer, and Governor Norman of the Bank of England came to the United States to negotiate a debt settlement. Mr. Baldwin at that time was accompanied by his wife and daughter

UNDERWOOD

PAST EXPERIENCES

THE guaranty of bank deposits is no new proposition. Hon. J. W. Pole, until recently Comptroller of the Currency, testifying before a committee of the House of Representatives, gave a summary of the experience of eight states in which a bank deposit guaranty had been attempted and in all of which it failed.

OKLAHOMA—enacted in 1907; inoperative in 1921 due to the fund's being practically insolvent; repealed in 1923, deficit being between $7,000,000 and $8,000,000.

KANSAS—enacted in 1909; repealed in 1929; deficit, $7,000,000.

TEXAS—enacted in 1909; repealed in 1927; deficit, $16,000,000.

NEBRASKA—enacted in 1909; repealed in 1930; deficit, $20,000,000.

MISSISSIPPI—enacted in 1914; suspended in 1930, due to deficit of $3,000,000 to $4,000,000.

SOUTH DAKOTA—enacted in 1915, repealed in 1925; reinstated by referendum in 1926; amended in 1927; deficit, $32,000,000.

NORTH DAKOTA—enacted in 1917; repealed in 1929; deficit, $14,000,000.

WASHINGTON—enacted in 1917; voluntarily canceled when Scandinavian Bank in Seattle failed with deposits of $9,000,000; repealed in 1929.

Testifying further on the subject, Mr. Pole said:

"In my opinion the enactment of this bill would destroy the Federal Reserve System by driving the strong banks from it. It would lead to the closing of thousands of small state banks which cannot qualify as members of the Federal Reserve System. It would put a premium upon incompetency and irresponsibility by rendering it no longer necessary for the country banker to be concerned for the safety of his depositors."

I believe that Mr. Pole's statement is correct.

—The Author.

Government Guaranty *of* Bank Deposits

By
PHILIP A. BENSON

IMAGINE, if you will, a fairly prosperous country town. The town has been served by a well managed bank. The citizens of the town have used the bank as a depositary, and the bank has loaned its money to those citizens who have acquired a reputation for honesty and stability. The farmer, the merchant and the manufacturer may all have been served by this bank—borrowing when their needs required it, liquidating as they collected the money due them. Reserves were carried in strong banks in neighborhood cities. The bonds that they purchased were those of the United States Government or of the state in which the bank was located, or corporation bonds of the very highest character. It is true that these bonds did not pay a high rate of interest but they were beyond a peradventure safe. The earnings of the bank were not large, but neither were the expenses. No fancy salaries were paid, no large dividends were distributed, nor were there frequent cuttings of melons.

In the April Journal Judge Paton, General Counsel of the Association, described in detail the failure of previous efforts to guarantee deposits — Editor

In other words, the bank was run as a bank should be run.

Now comes to the town a promoter with an active mind. He gets together a group of citizens, some of whom may have been jealous of those connected with the existing bank. They form a new bank; they get a charter; they induce depositors from the old bank to come to the new one by offering a higher rate of interest. To earn this they buy bonds that, while not strictly high grade, do pay a higher rate of interest; they offer borrowers larger lines of credit; they are less rigid in requiring the repayment of loans.

The old bank and its managers see business slipping away, but they keep their feet on the ground and they say, "Better no business at all than business on which we will lose money."

On top of this comes a law guaranteeing bank deposits. What does it mean?

It means that the safe and sound and sane banker that I have described must make a contribution out of the earnings of his bank to a fund that will guarantee to depositors in the bank of his competitor (inefficiently managed as it is) that their deposits are safe. In other words, sound banking must guarantee unsound banking; wisdom and efficiency must take care of inefficiency and greed. Is a law like this just or sound? Is it fair?

I quote from a statement made some years ago by James B. Forgan, a successful Chicago banker:

"Is there anything in the relations existing between banks and their customers to justify the proposition that in the banking business the good should be taxed to pay for the bad; ability taxed to pay for incompetency; honesty taxed to pay for dishonesty; experience and training taxed to pay for the errors of inexperience and lack of training; and knowledge taxed to pay for the mistakes of ignorance?"

It is an obvious fact that if the depositors of a failed bank are to be paid out of funds other than the assets of

The money must come from somewhere . . . out of the treasuries of sound and well managed banks . . . or out of the pockets of the taxpayers . . . if income justly due the Government . . . is applied to make good the mistakes and deficiencies of unsound banking.—*The Author*

the bank, some one must do the paying; the money must come from somewhere. It will either come out of the treasuries of the sound and well managed banks, or it will come out of the pockets of the taxpayers. It was proposed last year, for instance, that about $150,000,000 that had been paid to the United States Government out of the excess earnings of the Federal Reserve, should be used as part of a fund to guarantee bank deposits. But the money has already been used to retire the public debt; therefore, to get it back the taxpayers would have to contribute it. All contributions by the Treasurer of the United States for any purpose ultimately come from the taxpayer. If income justly due the United States Government is applied to make good the mistakes and deficiencies of unsound banking, the taxpayer must contribute just that much more money to pay the expenses of the Government.

Some years ago a group of New York banks constituting the entire membership of the New York Clearinghouse Association said, regarding a bank deposit guaranty bill then pending, as follows:

"Should such a proposition be enacted into law, any national bank, however inexperienced its official managers; however limited its capital resources compared to the field of its activities; however given to risky adventure; however venturesome in buying deposits by paying excessive rates of interest; however wanting in the proved qualities which time and experience have shown to be indispensable to successful bank management, such a bank would nevertheless be able to solicit business, truthfully claiming that their deposits were protected, as above stated by the combined financial strength of the whole national system. Good banks would thus be compelled to give of their strength to induce the creation of and then to support incompetent rivals.

Mr. Benson is president of the Dime Savings Bank of New York City, and a former president of the Savings Banks Association of the State of New York

"Such a proposition is in violation of common justice and common fairness. The (CONTINUED ON PAGE 69)

AN ANALYSIS—AND A RESOLUTION

A COMPARATIVE analysis of Part II of the Steagall Bank Guaranty Bills, H.R.10241 and H.R.11362, which latter bill passed the House May 27, 1932, was prepared by the General Counsel of the American Bankers Association and included in the report of the Committee on Federal Legislation to the Convention at Los Angeles. It follows:

FEDERAL GUARANTY FUND

ORIGINAL draft based member bank contribution upon amount of time deposits and "other than time deposits", and original contribution was $200,000,000. Revised draft makes this amount $100,000,000 and in the assessment of it makes no distinction between time and other deposits.

In the original draft the $100,000,000 which could be assessed annually was to be computed upon the net earnings of member banks, while the later bill bases this upon average deposits of member banks.

The original draft gave the Board (the proposed Federal Bank Liquidating Board) the right to fix the time and amounts of payments to this fund, while the later draft makes the instalments not more than 25 per cent of the assessment.

Non-member banks with capital of $25,000 or more may contribute to this guaranty fund if the Board determines they are in sound financial condition and they submit to examination by the Board at any time. Each such bank shall pay into the fund twice the amount required of member banks and payment will be made in instalments of not more than 25 per cent of the assessment. The Board may require such bank to withdraw at any time.

The original Bill permitted the Board to refund some of the total amounts collected if in its judgment they should not be needed, but the new draft permits the Board to exercise this judgment only when the funds exceed $500,000,000.

The new draft gives the Board the right until January 22, 1934, to borrow as much as $500,000,000 at any one time from the Reconstruction Finance Corporation.

THE ASSOCIATION OPPOSES

THE following resolution was passed at the Los Angeles Convention:

Guaranty of bank deposits carries an idea that naturally appeals to people in general on casual consideration. However, in principle it is unsound and in practice it is unworkable. It has been tried in eight states and it has not only failed in every case but it has resulted in increasing the number of bank failures. Taxing properly managed banks to make up losses of failed banks is not only unfair and unreasonable but it weakens the whole banking structure. Again guaranty of deposits places the incompetent and reckless banker on an equal footing with the able and conservative banker, which encourages bad banking at the expense of sound banking. We are therefore opposed to the passage of any law carrying a guaranty of bank deposits and believe that it is against the interest of the people of the United States to develop any such system.

Events That

WHAT makes bond prices?

Three or four years ago the answer to this question would have been comparatively simple. Anyone could tell you that the course of the bond market depended primarily on money rates and on the general trend of corporate earnings.

That, however, was three or four years ago. The prognosticator of bond prices in 1932 who based his forecast on the price of money and probable industrial earnings would have floundered badly in his predictions, even had he been blessed with the foresight to see clearly what the behavior of these two primary factors would be.

So far as money rates are concerned, the market has all but ignored them, except, of course, in the case of such investments as short-term Treasury obligations. This discussion is concerned however, with long-term bonds, such as one finds included in the numerous recognized bond averages, not with money market freaks. The short-term Government paper on which the Federal deficit has been financed recently cannot properly be regarded as an investment. It is merely a place of safe-keeping for funds which are temporarily idle. It is, as one banker puts it, nothing more nor less than a store of value, as is currency.

The accompanying chart of 1932 bond movements is based upon the behavior of the 30 bonds included in the averages of the New York *Herald Tribune*—a group which includes ten high grade railroad issues, five second grade rails, ten industrials, and five public utilities.

The money market factor—in so far as it is measurable by quoted rates—should have exercised a purely negative effect upon the course of bond prices this year. Between January and October, acceptance rates declined from $2\frac{3}{4}$ per cent to $\frac{1}{2}$ of 1 per cent in the New York market, and the call money rate on the New York Stock Exchange fell from $2\frac{1}{2}$ per cent to 1 per cent. This, under orthodox conditions, would suggest a gradually rising tendency for bonds throughout the year. However,

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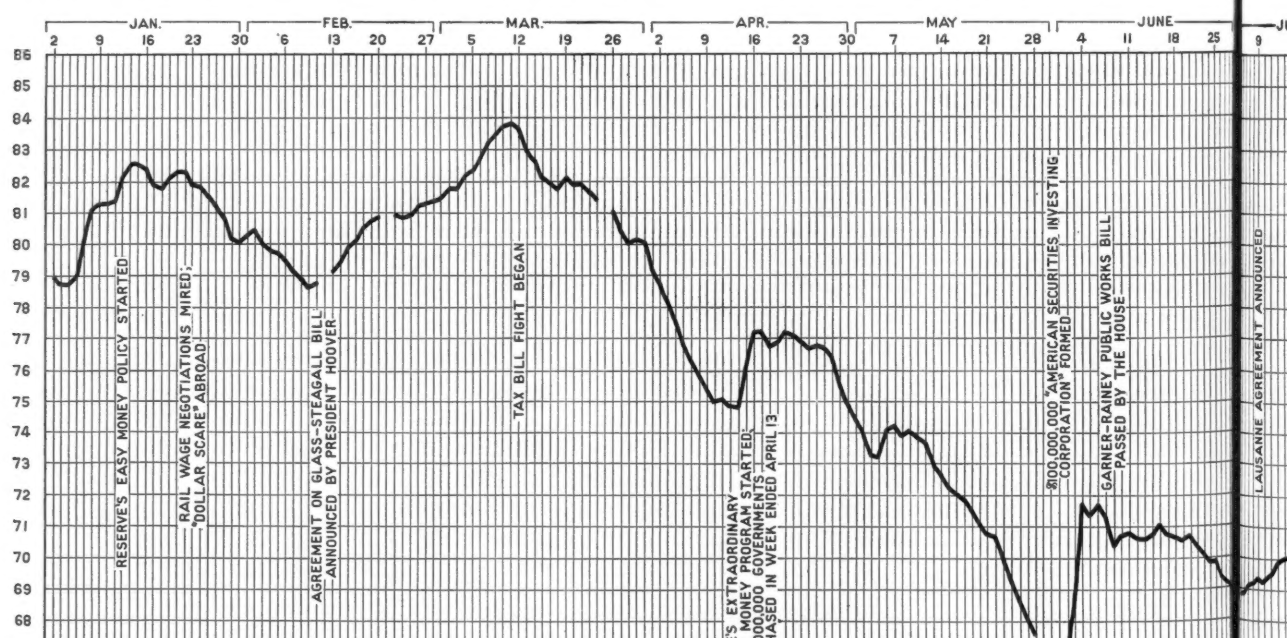
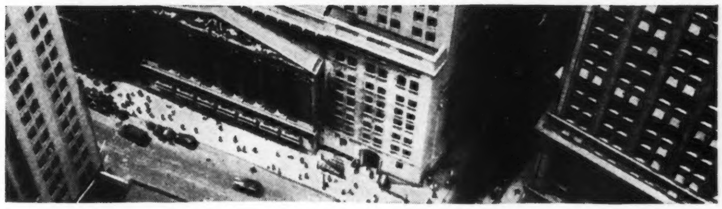
The JOURNAL presents the accompanying study, prepared in collaboration with E. H. Collins, financial news editor of the New York *Herald Tribune*, of long-term bond averages during 1932—a year filled with uncertainty and unforeseen happenings. Will 1933, apparently more hopeful now, permit a return to more normal terms in the bond market, even with the "imponderables" of new Administration policies and domestic and world problems?





Move Bonds

the spread between short-term money rates and the yield on even the highest grade corporate bonds has been so fantastically wide, even when the money market was at its "tightest", that the quoted rate may be virtually ignored. When funds will not flow into long-term corporate bonds with money begging at 2¾ per cent, they are not going to do so merely because the rate is marked down to ½ of 1 per cent. Against the high rate for short-term money, the 90-day acceptance rate of 2¾ per cent, the high yield on the best grade corporate bonds was more than 7 per cent.

In one respect, it will be readily admitted, corporate earnings have had something to do with the course of bond prices during the current year. The gradually dwindling income of the railroads, which for a time threatened wholesale receiverships, has been a depressant on this group ever since early 1931, and railroad obligations have played an important part in determining the trend of the market as a whole. The point is that there has been no close relationship, as in normal times, between the trend of corporate earnings and the trend of bond prices. Corporate earnings, according to a study published last month by the National City Bank based upon the returns of 205 leading concerns, were at their lowest in the third quarter of the year. In this three months' period they showed a combined deficit of $14,000,000 compared with a net profit of $6,000,000 in the second quarter and a net profit of $25,000,000 in the first quarter. Yet we find that it was in the third quarter that the market enjoyed its only sustained rise of the year, running up 15 points, or approximately 21 per cent, between July 8 and August 21.

As an active factor in the making of bond prices during the year now drawing to a close, politics and legislation have, for the nonce, loomed larger than money rates and corporate earnings. But the important generalization, if one may be hazarded, is that the major influences of the period have been influences which could not have been clearly foreseen or accurately measured by the mar- (CONTINUED ON PAGE 55)

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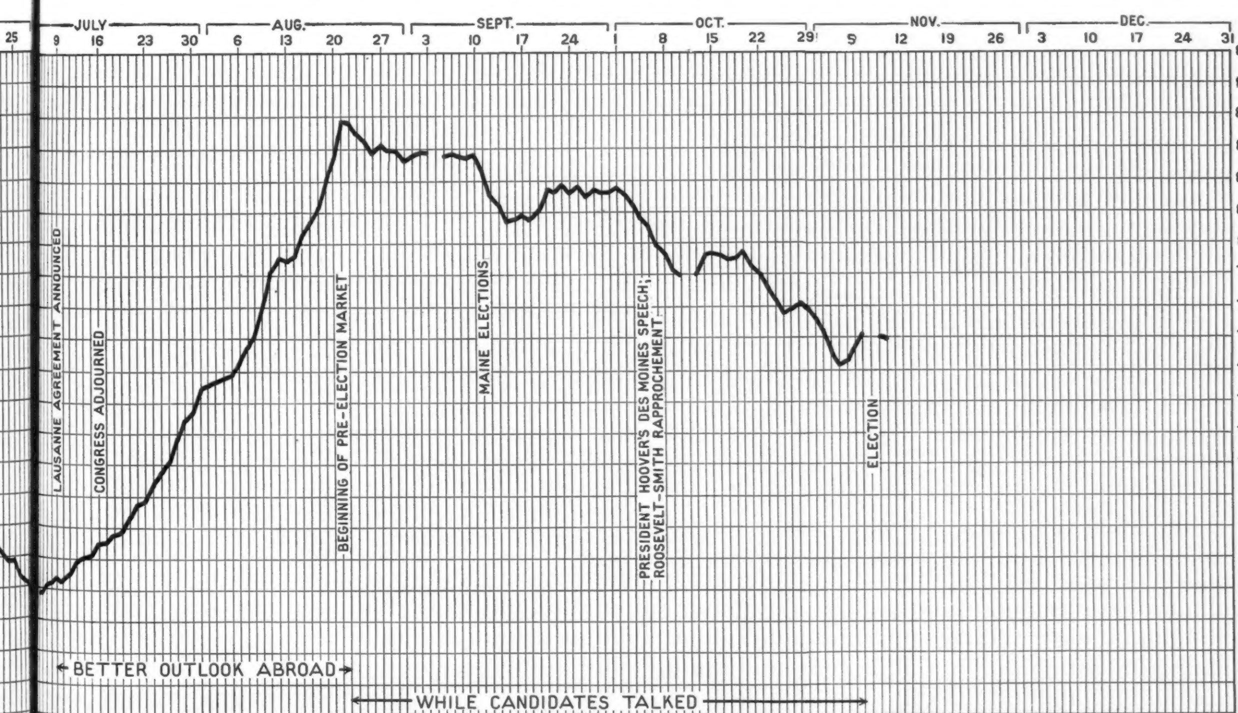
The chart on these pages shows 1932 bond fluctuations and trends as related to current happenings during the year. It is based upon the behavior of the 30 bonds included in the averages of the New York *Herald Tribune*—a group which includes ten high grade railroad issues, five second grade rails, ten industrials, and five public utilities. The article describes the effect of the events indicated



One Way to Bring About Common Action for Recovery Between—

Banking and Business

By WILLIAM F. AUGUSTINE

BROADLY speaking, there are two very different concepts of the banker and the banker's function today.

One view is that of the banker as a mere "money merchant," a dealer, a buyer and seller of money—intent upon profit, heedless of the longer view or of ultimately desirable ends.

The other and, I hope and believe, the more prevalent view is that of the banker as a "money engineer," a scientist and builder—using money to create goods, services and institutions, to preserve and enhance life and civilization, and by doing these things wisely and well, to multiply capital in the present and preserve it in the future.

The banker who sees himself as the first of these two concepts—that banker is and must be a declining influence in our highly complicated, highly mechanized, highly organized way of life. It is to the advantage of all bankers who hold the second concept of themselves and their function that this should be so, because the banker who has no thought but of the immediate advantage, no regard for the social implications of his actions, is an actual threat to the preservation of the institutions in which we all believe. Why? Because these are times when only the long view, the socially conscious, truly conservative approach to problems will suffice to help us adjust our institutions to our unstable and shifting economic environment.

"As a matter of fact, cooperation falls into two divisions—cooperation of the individual bank with individual business men and clients, and cooperation of bankers as a group with all other business or with business groups." Mr. Augustine is vice-president, National Shawmut Bank of Boston

We are entering an era of compulsory cooperation, or more accurately, we have been in it for some time without all of us recognising the fact. By "compulsory cooperation" I simply mean that we must cooperate—if not actually to survive, at least in order that we may reach the best and most desired individual and social objectives in the best and most orderly way. That being the case in respect to our business machine in general, it is true in an especially vital and compelling way as regards the relations between banks and industry. I have implied that we need the engineering approach in banking. Let me explain what I mean in terms of cooperation.

In the first place, the engineer knows that he will not achieve a desired result in an orderly way unless he first determines precisely what that result is to be in all its implications and ramifications, and, second, unless he has a detailed plan for achieving it.

In the second place, the engineer knows better than to attempt progress through opposing natural forces to each other. On the contrary, he takes advantage of natural forces, making them work for him and his objectives.

Similarly, in the era of cooperation between banking and industry which is upon us, the banker must in a sense visualize himself as a technician—just as does the engineer—brought into a given situation to help and to direct the building of an enterprise or institution. Like the engineer, he must and will make sure that the foundation is sound. This is not a new concept to the banker but there are implications in it which I think are new in many cases, for by a "sound foundation" I mean a basis, a reason for existence, that is economically and socially sound. It is a truism that an individually "successful" business—successful in the sense that it makes a profit—may be economically unsound in that it contributes to unrest, instability and maladjustment of our economic machine to our social needs. We as bankers have far too great a stake in the stability and preservation of our society not to apply the tests of the engineering approach and the long view to our function as a part of the economic machine.

And if we do so, we must perforce apply these same tests in our every-day business contacts. In other words, we must cooperate with the business men whom we serve to ensure that capital, entrepreneur initiative and management brains are directed into those courses and to those ends which are basically sound, both socially and economically. We must see the other man's problem, his ambitions, his desires—closely and humanly and sympathetically—and at the same time we must see them from a distance, detachedly, understanding their significance in terms of social and economic effects. And so far as foresight is humanly feasible, we must act upon them in terms of our adjudication of their significance and importance in the whole stream of business evolution and human progress.

PLANNING, ORDERLINESS

WE MUST, I believe, be builders and not money changers. We must be truly conservative, which means that we must be ready to break with tradition and to adopt new methods, new devices, to accept new responsibilities—all for the purpose of preserving, conserving, the values in our present civilization, and of helping to evolve new values and better institutions.

We cannot be arbitrary, however, either as individuals or as a group, for two reasons. In the first place, we are not omniscient. In the second place, we do not possess, legally or ethically, unlimited and arbitrary power. The obvious result of these circumstances is that we must work together with others in every line of endeavor to reach the soundest (CONTINUED ON PAGE 60)

Despite Their Distress—

Are the Farmers Leading This Country Out of the Depression?

They Are Now Balancing Their Budgets—Not All of Them, But Enough to Show It Can Be Done

By

FERN L. LOUGH

"I'm a farmer, also a banker", Mr. Lough emphasizes in stating his case for the farmer. Bankers know him as president of the State Bank of Remington, at Remington, Indiana

I'M a farmer, also a banker. As a banker, all my business comes from farmers and from people who do business exclusively with farmers. And in both capacities, I know that the farmers' plight is serious.

Yet I cannot be as morose about it as are many people. Without attempting to minimize the farm problem, I paradoxically believe that the farmers are actually leading this country out of the depression.

And this despite the apparently hopeless situation of farmers today, for they are not making a living income. As this is written, our farmers—our customers—are getting 18 cents a bushel for corn and 10 cents a bushel for oats. Perhaps this does not mean much to you, so let me translate it into terms of income.

The average farm hereabouts is 120 acres, the average yield is 40 bushels of corn or 28 bushels of oats to the acre. If the average farmer, then, had all of his land in corn this past summer, his maximum possible gross income was \$864; in oats, \$336; mixed, anywhere between. Of course no farmer can put all his land into grain, but this would yield him the maximum cash income, gross.

The average 120-acre farm here carries a mortgage of \$5,600, which at $5\frac{3}{4}$ per cent interest is \$321. His taxes average \$2 an acre, or \$240. Deduct \$561 from his gross income of \$864, and you leave him \$303. This \$303 must buy his seed, his work animals and anything necessary for his family. But I must stop, or presently we shall have the farm owing him money.

It seems axiomatic that the first requirement of national prosperity is a balanced budget—not only a balanced Governmental budget, but also balanced budgets for businesses, banks and individuals. When most of us get our budgets in balance, the nation's equilibrium will be restored and happy days will be here again. And most people inquire how the farmer can balance his budget which is principally outgo.

I cannot answer that one in full, with statistics. But from personal observation I may be able to shed a little light on how it is done, and thus set up a factual basis for my cheerful thesis that the farmer is leading us back to prosperity.

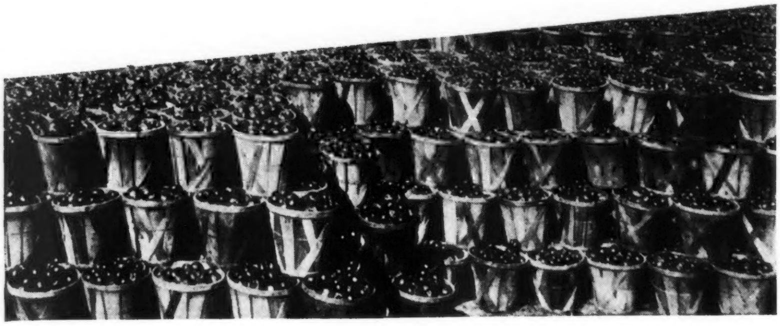
LOW COST OF FARM LIVING

SUPPOSE we start by examining the cost of living. The statisticians differ, but they used to declare that \$2,500 is required for the decent support of a family of two adults and three children. This may be true in the cities; I don't live there, and cannot say. But in the country, on a farm? It just is not so.

Let me have a good unmortgaged farm with a habitable house, a good set of outbuildings, a well, a couple of cows, a team, some poultry, a few hogs, an orchard, a woodlot and a two-acre garden. I will then live better on \$300 cash income from the field crops than the city man with \$4,000 annual salary. I shall raise the bulk of my own food, cut my own fuel, sell a few dollars' worth of apples and garden truck, with perhaps a little cordwood or hardwood logs for lumber. I shall find other ways to supplement our income. My wife will sell some butter, eggs and poultry.

I shall not need such good clothes as a city man, neither will my wife have to dress up to city standards. In fact, as a country banker, I don't have to. I wear some days a suit which is threadbare, even a little frayed at the cuffs and along the front at the desk-line. None of my customers thinks any less of me, and possibly they consider me pretty affluent to have two suits, even if one is noticeably worn. But to return to my supposed retirement to the farm; if I have a mortgage to pay interest on, I shall somehow get along with less "boughten" stuff. I may wear an honest patch on the knees of my overalls, but the seat will be intact for I cannot wear that out.

This is exactly what the farmers are doing today. They are learning some-



"I shall have the check for my tomato crop next week", a farmer writes, "and will give you the most of it to apply on the note. This will cut it in half, which is the best I can do." Bless his heart, if the other makers of ancient notes would do as much we could look upon the world with a less bilious eye.—*The Author*

how to get by, to spend less, to supplement their farm earnings with extra cash. Consider, if you will, a farmer who was in the bank yesterday. I asked him how things looked, expecting the usual wail. Instead, "Why, you know, I'm going to get by nicely if things don't get any worse," he told me. "We're making enough to pay interest and taxes and buy what we need worst. I keep learning how every day, and if things stay just as they are I'll be in pretty good shape by next year."

I know how this man is doing it. He and his son are thrifty and industrious. Moreover, they have mechanical ability. So, when someone thereabouts gets all out of patience with his old corn sheller which won't work, or his clover hauler which is breaking down, this farmer buys it for a few dollars. Then he and his son tinker it back into shape, buy a few spare parts, and presently have the equipment in repair. Last summer, when their own work was done early due to their implements, they earned $10 one afternoon hauling in a neighbor's clover on their hauler, drawn by their rebuilt tractor with rubber-tired wheels, which they have fitted to it for road hauling. They are taking in a few dollars now and then for shelling corn on their corn sheller; altogether they are supplementing their conventional sources of income in a dozen ways.

This past year, with its low grain prices, has made a sizeable profit for the farmer who feeds stock on this cheap feed. It has seen many grain farmers turn their attention to stock. Feeder cattle are appearing on our farms, and yielding a profit. There are more hogs than ever, because even at $3 you can make money feeding 18-cent corn to them. Our bank has staked dozens of farm wives to money for brooder houses, and poultry here is on the increase. More and more of our farmers are raising dairy herds and selling milk for the Chicago market. One farmer who came in here three years ago has an 80-acre place and a nice dairy herd, raises his own feed and is taking in an average of $125 a month on milk checks. He carries a nice balance with us, puts more to it almost monthly, and is prosperous—even though he does grumble heartily at the starvation prices he gets for his milk!

LEARNING TO PROSPER

THIS has always been a grain country, but some of our farmers have turned to other crops to increase their earnings. A canning factory a few miles away needs truck, so a number of our farmers are raising sweet corn, tomatoes, and pumpkins. Right now a letter lies on my desk from a farmer whose note is so old it has whiskers. "I shall have the check for my tomato crop next week," he writes, "and will give you most of it to apply on the note. This will cut it in half, which is the best I can do." Bless his heart, if the other makers of ancient notes would do as much we could look upon the world with a less bilious eye.

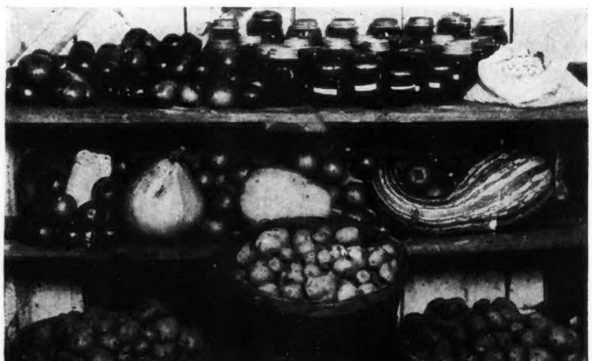
We have not yet experienced it, but a banker not many miles from here was telling me the other day of what is happening near him. Many foreigners have come to the neighborhood and have taken small farms and settled down to work in a whole-hearted fashion that native Americans cannot understand. These farmers get down on their knees and dirty their hands. Their wives and children work with them, and they are uniformly making money. The Americans, who resent their presence, are nevertheless taking the hint. They are beginning to work in the same way, and their whole district is becoming more prosperous.

Do not understand me as saying that all is well on the farms, that all the farmers can now make money, and that all are happy. This is not so. But the farmers who can make a living are learning to do it. Some will never learn. On the map of our township I can put my finger on adjacent farms with identical soils. The first farmer is making money, increasing his funds in the bank. The second is losing money, is behind on his payments and is getting ready to lose his farm and everything he has accumulated in a lifetime. What about this second man?

It is too bad, but I see little hope for him. If he simply cannot learn how to get along under current conditions, he is due to lose out. His thrifty, adaptable neighbor will probably buy his place and make more money than ever. Maybe the less efficient man can stay on as a hired man.

This is the inexorable law of our economic system, that the man who knows how can prosper while the man who cannot learn goes broke and is frozen out by his own incompetence. The present condition of the farmers makes it appear that the poorer farmers will be (CONTINUED ON PAGE 65)

The farmer is nearer to the soil, the source of all wealth and goods. He can produce his own goods when outside sources fail. —*The Author*



Newspapers—Magazines—Car Cards—Outdoor Displays—Lobby Displays—Letters—Printed Matter

The 1933 Budget For Bank Advertising

By

H. A. LYON

Mr. Lyon is president of the Financial Advertisers Association and advertising manager of the Bankers Trust Company of New York. He offers the following advertising suggestions:

Determine what your general policy and objectives will be for the next five years. You do this in certain departments now. It should not be impossible as concerns your public attitude.

At intervals set definite goals that you want to reach.

Study the markets that will produce these goals.

Investigate the most effective methods for reaching the markets.

Embark on a program that gives the methods their chance.

Stay with it for the full period.

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WITH definite improvement in the general economic situation, financial institutions are being overwhelmed with advertising advice—and what is the banker going to do? The difficulty with most of this advice is that it is general, whereas the problem itself is distinctly selective.

First, there are local conditions to be considered: What is the temper of the people? Have they been hard-hit by bank closings? Have they sympathetic pangs because of financial difficulties in nearby localities? Are they in severe economic difficulties? Or have they been on the whole fortunate? If the people are disturbed, and with reason, it is an extraordinary situation requiring extraordinary treatment, and the symptoms must be diagnosed by careful study before effective treatment can be prescribed.

But let us assume that the people are not now particularly disturbed. Some sort of publicity or advertising is undoubtedly indicated, but what shall it be—newspapers, magazines, car cards, lobby displays, letters or printed matter? And how shall the budget be apportioned? Perhaps it is worthwhile to set up a few guide posts which may be of general help in this specific task.

The tendency for the past three years has been apparently to curtail newspaper and magazine advertising. This is perfectly comprehensible, for various reasons. A great many institutions have felt that such advertising, regardless of its tone, could only serve as an aggravation during a period when criticism was rampant; that competitive advertising might be construed in a manner harmful to the whole financial structure; and that advertising space was relatively high-priced and therefore an expensive buy. Today the first of these reasons is practically non-existent, the second far less dangerous, and the third in many cases partially rectified by reductions in rates.

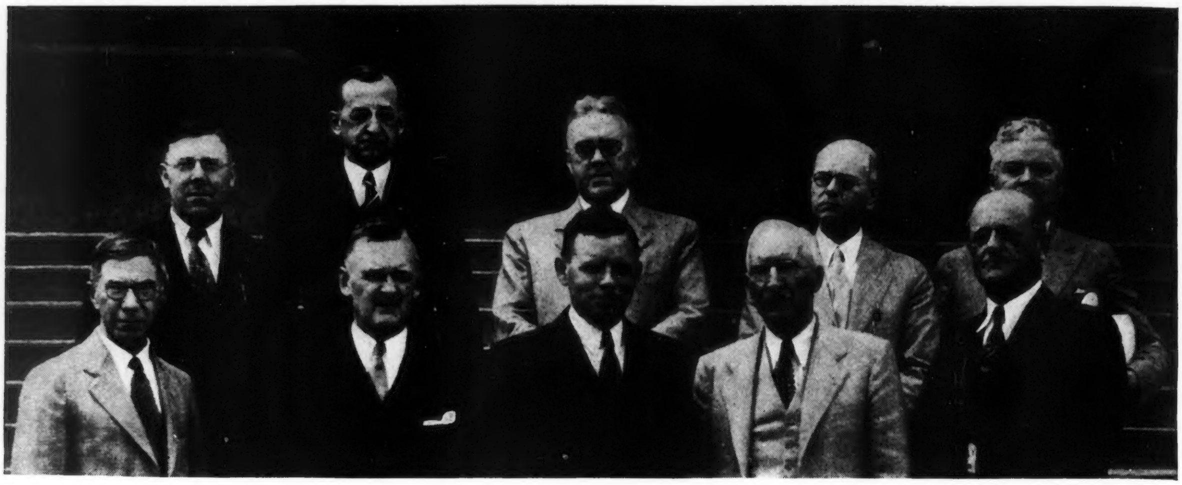
I believe that newspaper advertising is the backbone of a well-rounded program. First, unlike a letter, the newspaper advertisement is there for everyone to read. Anyone may send a letter, but it is assumed that only a reasonably substantial house can afford to enunciate its principles in a newspaper advertising program. Second, newspaper advertising reaches the unknowns and the unapproachables. No institution can possibly know every prospect, and there must always be some desirable people with whom the bank is unacquainted. Then there are those who may influence business—attorneys, partners, relatives, friends and casual acquaintances whom it is impossible or impolitic to cultivate in this connection, but whose opinion nevertheless has considerable aggregate weight. Proper advertising tends to foster customers' pride in their institution.

Yet, the purchase of newspaper space is unimportant compared with the use to be made of it. And only a thorough knowledge of the institution, its condition, its goals, and a comprehension of the market, its temper and its possibilities, will yield a basis for newspaper copy. The economic complexion of many communities has been altered—wealth has changed hands, businesses have died, and others have been born. A personal solicitation runs the risk on the one hand of missing new prospects and on the other of including some who no longer represent profitable relationships. Finally, it seems reasonable that there exists a ready market today for many of the services of banks, if we can find it. Good newspaper advertising helps discover this market.

Of magazine advertising, there is this to be said—it is more selective than newspaper space. It has been used relatively little, for it is apparently expensive. But, wisely selected, the magazine advertisement has longer life, a more specialized appeal, and a more concentrated audience than the newspaper advertisement. General magazines with national circulation may be used effectively by large institutions with a national market, but to other institutions there are available the trade, professional and special-interest magazines which may hold possibilities for profit. Only a thorough study of business potentialities reveals these opportunities.

Direct mail is a powerful weapon in retaining and adding business. It may be more personalized than newspaper or magazine advertising, and hence probably more directly effective. Careful compilation and frequent reviews of mailing lists are essential in these days of economy, but, after all, planning is 75 per cent of the battle. Direct mail is designed to sell more widely and less expensively than personal calls. Hence it is obvious that a well-planned, attractive, continuing mailing series to a carefully selected list will inevitably be most productive. Without planning, it will lack direction and vitality, and will probably be disappointing in results. Test mailings on a limited list before you undertake the complete job, but be sure you know how to judge the tests.

Car cards, outdoor displays and lobby displays have one main purpose—a quick, colorful dramatic reminder of some specific sales item. It may be the bank itself (institutional copy), but more often it is a service which can use these media to advantage. And finally, a good window or lobby display in a city bank may cost anywhere from $25 to $500, and I have seen those that cost far more—and are worth it.



The group of Indianans shown here —members, with two exceptions as noted below, of the Study Commission for Indiana Financial Institutions—are among those who have contributed to its research and findings.

Front row, left to right:

George F. Ogden, Peru, Indiana, secretary of the Indiana Savings and Loan League;

Myron H. Gray, Muncie, member of the law firm of Bracken, Gray and Defur in that city; member of the Home Loan Board for the Indiana-Michigan district and attorney member of the Commission;

Walter S. Greenough, Indianapolis, assistant to the president, Fletcher Trust Company; chairman of the Commission;

George Weymouth, Indianapolis, associate editor of the Indiana Farmers Guide and former editor of Farm Life;

Willis S. Ellis, of Anderson, president of the Anderson Loan Association and former circuit court judge.

Back row, left to right:

Hugo Melchior, of Jasper, cashier of the Dubois County State Bank and a member of the council of administration, Indiana Bankers Association;

Franklin M. Boone, of South Bend, a director of the Home Loan Bank for the Indiana-Michigan district and an official of the Building and Loan Association of South Bend;

William F. Morris, of Pendleton, president, Pendleton Banking Company;

C. M. Setser, of Columbus, cashier, Irwin-Union Trust Company; an official of the Indiana Bankers Association; and

Curtis H. Rottger, Indianapolis, retired president and now a director of the Indiana Bell Telephone Company.

Mr. Ogden and Mr. Setser are not members of the Study Commission, but both have assisted in its work.

The members of the Commission who do not appear in the picture are:

Dr. Charles Kettleborough, Indianapolis, director of the Legislative Reference Bureau for Indiana;

William G. Irwin, of Columbus, capitalist and president of the Irwin-Union Trust Company at Columbus; and

Paul N. Bogart, of Terre Haute, executive officer of the First-McKeen National Bank and Trust Company.

The Study Commission

for Indiana Financial Institutions

IN the waning hours of the 1931 General Assembly of Indiana a resolution was adopted by both House and Senate empowering Governor Harry G. Leslie to appoint a commission of 11 members "to investigate the organization, operation, activities and control" of banks of discount and deposit, loan and trust and safe deposit companies, private banks and savings banks, and building and loan associations, rural credit associations and other related associations (in other words, all types of financial institutions under supervision of the present Indiana Commissioner of Banking) with a view of "standardizing, harmonizing, unifying, codifying and correlating" the various existing laws applicable to each of these types of institutions, "the repeal of all unnecessary laws, and the enactment of all such new laws as may be necessary properly and more effectively to meet the requirements of and for the exercise of financial functions within this state; to investigate the laws of other states and countries concerning similar corporations and the results of the operations of such laws, with a view of ascertaining the best methods and practice of each".

ELEVEN MEMBERS

THIS group was named in May, 1931. Following requirement of the legislative resolution, four of the 11 members represented the banking industry, two from metropolitan centers and two from rural communities; two were engaged in the business of operating building and loan associations; one was an attorney familiar with such financial businesses; and three were named to represent and safeguard the interests of the general public of Indiana. The eleventh man, a distinguished technician in the field of legislation, was the director of the Indiana legislative bureau.

The group was directed by the legislative resolution to submit a report of its detailed findings to the Governor not later than November 30, 1932, together with "the forms of such bills or acts to accomplish the revision and codification of existing laws with reference to the above groups of financial institutions, and the enactment of such new laws as the commission may find to be proper or necessary"; and the Governor thereupon was authorized to transmit the report and proposed statutes to the 1933 General Assembly, "with such recommendations as the Governor may see fit to make." This report has been virtually completed and bills for laws modifying Indiana's control over financial businesses have been drawn.

Members of the commission have served without recompense from the State of Indiana, and actually have paid practically all their individual expense out of their own pockets. Private sources have financed the research budget and other nominal costs incurred.

Much of the research necessary to the project has been accomplished through cooperation by Indiana University.

"As a working member of the Study Commission for Indiana Financial Institutions, it has seemed to me that the scientific detachment with which the project was approached and concluded should lend authority to the findings", says Mr. Greenough, chairman of the Study Commission and assistant to the president of the Fletcher Trust Company, Indianapolis. "The individual members, as well as the widely spread collaborating groups, are hopeful that the Indiana legislature this winter will accept in practical totality the recommendations that have been prepared"

Legislative Action—

The Indiana Plan

By WALTER S. GREENOUGH

THIS is the story of the cooperative effort by the Indiana public and the Indiana banks and the Indiana building and loan associations to profit in statewide and long-time fashion from this depression. It has to do with the reconstruction of the state's control over its financial institutions; with the impending strengthening of Indiana laws so that the unfortunate failure record of the past decade may not be repeated in the future; with a positive attack on those inadequacies in state government under which Indiana, like many another state, gave ground seriously in the economic crisis.

The realization came to those struggling with specific suggestions for needed corrections in the financial law domain that a comprehensive, historical study, buttressed by collection of all current data, might give to the state a new vision with regard to the legal arm which the people of the commonwealth had stretched across their financial institutions. Out of this desire to see a complete job accomplished in the revision of state laws governing banks and kindred businesses was born the Study Commission for Indiana Financial Institutions.

The legal status and the personnel of the Study Commission are described on the opposite page. As a working member, it has seemed to me that the scientific detachment with which the project was approached and concluded by the Commission and its research staff should lend authority to its findings; and the individual members, as well as the widely-spread collaborating groups in Indiana and elsewhere, are hopeful that the Indiana legislature this winter will accept in practical totality the recommendations that have been prepared.

Lending confirmation to this desire are the facts that both the Democratic and Republican state conventions pronounced in favor of the project in their state platforms and during the recent campaign the candidates for governor in both parties openly endorsed the proposed revision of laws governing banks and allied businesses and called attention of the Indiana public to the comprehensive character of the preliminary study that had been in progress. Leading newspapers of the state, the Indiana Bankers Association, the Indiana Savings and Loan League, the Indiana State Bar Association, and many individuals and interested groups openly approved of the method devised for rehabilitating the state's financial laws. The fact that such an effort was in progress doubtless has served already to ward off numerous evils of radical and unconsidered legislative proposals which have been "in the air" in Indiana as elsewhere.

GOVERNING POWER

STRENGTHENING the regulatory laws and increasing the powers of both state and national authorities over the harassed financial businesses unquestionably is the general thought among leading authorities and this was quite apparent in Indiana. The first conclusive action of the Study Commission was toward devising a new system of state control —one which should be as free from political influence as possible; one which should have far more flexibility of authority in good times and bad than is now the case; one which should be adequately financed, not by the taxpayers but by the governed businesses themselves; one which should be responsive to increasing needs of the complicated financial field and at the same time should work definitely toward greater protection now and hereafter for depositors and shareholders.

The proposed new governing power will be known as the Indiana Department of Financial Institutions and it is granted general charge of the organization, supervision, regulation, examination and liquidation of all financial institutions, to which the new statutes will be applicable—including banks of discount and deposit, private banks, savings banks, trust companies, building and loan associations, credit unions, mortgage guaranty companies and petty loan businesses.

Cooperating in the undertaking from the first has been the American Bankers Association, and the Study Commission for Indiana Financial Institutions very early recognized the great value of the nation-wide proposals of that Association for development of the regional clearinghouse idea. After careful consideration of the best possible method for incorporating this idea in the new Indiana legal picture, and after exhaustive discussion of the whole matter with Frank W. Simmonds, Deputy Manager of the Association and Secretary of the Bank Management Commission, the Study Commission has done

much within the past 18 months to advance it in the public consciousness as one of the most worthwhile trends apparent in the reconstruction era.

And, basing its judgment on various supporting data developed in behalf of the regional clearinghouse plan as a means of tightening up actual banking practices, the Study Commission has included in its recommendations to the 1933 Indiana General Assembly, a complete program whereunder the new state supervisory power can be continuously and wholeheartedly in cooperation with any area in which a regional clearinghouse may be formed. One of the sections of the proposed law provides: "If, at any time, the banks and trust companies of any designated geographical area of the state, to be approved by the Department of Financial Institutions, shall associate themselves together in a regional clearinghouse association, the Department shall, if it deems desirable, assign an examiner to the area in which the association has jurisdiction, who shall be known as the regional examiner, and who, in addition to his other duties, as prescribed by law, shall cooperate with the officers of the clearinghouse association in such manner and to such extent as the Department shall determine and direct."

THE BOARD OF CONTROL

OTHER provisions of the proposed statutes link this regional clearinghouse program even more definitely to the state's supervisory authority. It will be readily apparent that cooperation of this type will be much easier than heretofore when the official set-up of the new Department of Financial Institutions is clearly understood. The new law proposes to follow the plan of organization which has proved satisfactory in other fields of state control in Indiana, and provides for the powers and duties of the proposed Department to be vested in a board of four men, appointed by the Governor—one of whom will be appointed upon nomination of the Indiana Bankers Association, one upon nomination of the Indiana Savings and Loan League, and two without such recommendation. Thus the two most important sections will have direct representation on the group in whom entire responsibility for supervision and examination is vested.

A complete innovation comes at this point in the proposals of the Study Commission, at least so far as Indiana is concerned. Hoping sincerely that the patriotic requirement will work to attract only the highest type of citizens to membership on the governing board of the Department, the law will specify that the four members of the ruling board shall serve without compensation of any sort, except that they are to be paid their necessary expenses in connection with their duties. Leaders in the financial field and many other citizens, learning of this proposal, have indorsed it as perhaps the most important forward step of the entire program of attempted reconstruction of this phase of state government.

NON-POLITICAL

LIMITATION of the governing group to four was done after careful study of all factors. Provision is included that not more than two of the four men shall ever be adherents of the same political party. Thus the balance of political power will be kept and, insofar as it is possible in any state, the Department will be free from political influence. Throughout the organization of the new Department, the proposed law safeguards it from political machination through provision for a personnel equally divided in political faith. And a further safeguard is this drastic section: "For the purpose of securing and maintaining the professional standing and conduct of the staff of the Department and to safeguard the service from the disadvantages which would result from interference by persons not members of the staff, it is hereby declared to be a misdemeanor for any person to solicit from any officer or employee of the Department any money or other thing of value for political assessments or contributions, and upon conviction thereof the person so soliciting such assessment or contribution shall be fined in any sum not less than fifty nor more than five hundred dollars, to which may be added imprisonment for not less than sixty days nor more than one year."

Another precept which has guided the Study Commission throughout its long considerations has been that good management cannot be legislated. As carefully as possible, the recommendations of the Commission have sought to leave good management free to function according to the dictates of its own sound judgment, without undue governmental interference.—*The Author*

Herman B. Wells, professor of money and banking in the department of economics and social sciences at the University of Indiana, who has also had wide practical experience in banking and in building and loan matters, was employed by the Study Commission as its research director

The chief executive and administrative officer of the proposed new Department is to be appointed and subject to removal by the non-partisan, non-salaried board governing the Department. He must have "practical knowledge of the business of banks and building and loan associations and shall be familiar with the nature and problems of the respective financial institutions over which he has jurisdiction, and who shall be chosen solely for fitness, irrespective of his political beliefs or affiliations."

THREE DIVISIONS

THREE coordinate divisions (and more, if the board of control of the Department and the Governor of the state agree) are to function, with their respective supervisors chosen solely for fitness to control each of the groups of businesses under the Department, and answerable to the director and through him to the board of control. The divisions follow: the division of banks and trust companies; the division of building and loan associations; the division of small loans.

On recommendation of the respective supervisors, the director—with approval of the non-political, non-salaried board of control—names the personnel of examiners and others to carry on the work of the Department. These examiners and other (CONTINUED ON PAGE 66)

By HAYNES McFADDEN, JR.

Voluntary Action—

A Georgia Plan

How Georgia bankers are taking the initiative is described by Mr. McFadden, Jr., who is publicity manager for the agricultural committee of the state association. The map shows Georgia's group and zone banking set-up

DURING the past year many new banking and argricultural problems have arisen and again leaders of the Georgia Bankers Association have undertaken their solution with splendid results. In a series of 15 zone meetings ending August 25, the association has carried out a double-barreled program which, it is believed, is an outstanding and unique example of banking cooperation.

The experiment and experience of the Georgia Bankers Association during recent years in holding frequent sectional meetings to study bank management and agricultural problems have met with success at home and have set a new standard in association activities. The new ten-point plan, introduced for improving bank incomes, is in general use throughout the state, and the live-at-home farm program is practiced extensively.

THE NEW TEN-POINT PLAN

THE first barrel of this plan of action is charged with a newly developed ten-point plan contributing to safety, strength and economy—involving no new service charge or modification of bank relations to the public, but rather the exercise, within the four walls of each bank, of processes of research and analysis to reinforce the income, assets and investment accounts of its members.

The new ten-point plan leaves the field of operating profits and confines its application to questions of internal management. Its provisions as impressed upon member banks are:

1. Improved security and improved collections by closer examination of the note case. Be sure to have all the collateral that can be obtained, or all the indorsements where collateral is not available or where indorsements are needed in addition to collateral.

CREDIT INFORMATION

2. REVISION of statements of assets and liabilities from borrowers. Have always available credit information in detail on all these customers. Study their statements. Ascertain whether or not some way can be suggested to these customers for improving their own position, thereby strengthening their lines of credit.

3. Improve profits by studying the costs of doing business. Undoubtedly many leaks can be stopped in this manner. If a depression serves any good purpose whatsoever, it is that during such times everyone finds out that he can live more economically, and that he can operate his own business more carefully and systematically than he was doing in prosperous times, and when prosperity returns, he will be in a position to go forward more safely, more surely and more rapidly.

4. Add profits by revising the method of calculating interest paid. There are numerous methods of figuring interest and many are better than others. By careful study of this subject, earnings can be increased without losing any customer's goodwill.

5. Discover operations or forms of service rendered at a loss and take steps to correct for profit. Locate the spots where new charges are due to be assessed as soon as business conditions permit. Study the Georgia Bankers Association's original ten-point plan for service and stop loss charges (reproduced with this article), and read the bulletins which have been published by the Bank Management Commission of the American Bankers Association on the subject of bank management and operation. In this way, many sources will be found from which earnings can be increased when times are better and things are improving. Take advantage of the present opportunity to become fully informed on what others are doing along these lines.

6. Study the advantages of the accrual system of accounting. With business slack, now is a good time to install this improved system.

7. Advantages of operating under a budget system. Study the budget and make it airtight, as there are many items that creep in when times are good that can and should be eradicated when times are bad.

BOND KNOWLEDGE

8. BONDS for banks; offsetting shrinkage by wise selections and exchanges. Knowledge is power, and recognizing the fact that commercial loans of the desirable class are becoming scarcer and that other fields must be sought for investing funds, advantage should be taken of spare time to develop a working knowledge of the bond business. The banker should know what the bond salesman is talking about, and what he should sell that is now on his list, and what he is going to buy in the future.

9. High cost of insurance and surety premiums, and methods of cutting this cost. Study insurance and be sure of proper coverage. Insurance is bought largely on account of an agent in a

Service and Stop-Loss Charges

Increased income amounting to $213,735 was reported last fall by 183 Georgia banks that had checked the results of following the state association's original ten-point plan of service and stop-loss charges. These ten points are:

1. **Service charge on unprofitable accounts, usually 50 cents a month, minimum balance, $50;**
2. **Service charge on checks drawn against insufficient funds, usually 25 cents an item;**
3. **Service charge on notes allowed to run overdue;**
4. **Service charge for over-printing checks, usually the actual amount of the printer's bill;**
5. **Service charge on small loans figuring less than $1 discount;**
6. **Exchange on out-of-town checks cashed or deposited;**
7. **Fee for cashiers' checks;**
8. **Limitation of interest on time and savings deposits;**
9. **Statements of assets and liabilities required from all borrowers of more than $500; and**
10. **Establishment of credit bureaus for the interchange of information between banks to forestall duplicate and multiple loans.**

This plan, and the more comprehensive ten-point plan described in the accompanying article, have been emphasized at the 30 zone meetings of the Georgia association—two for each zone—held this year. The zone meetings, usually devoted exclusively to improved banking practices, are followed by county meetings for the actual adoption and enforcement of rules and principles advocated by the association. The zones held agricultural meetings during the summer.

company. Here is an opportunity to try to develop some business by picking both agent and company with care. Be sure that the insurance rate is right, and that a reduction can be had if certain small changes or betterments are made which often pay for themselves in reduced premiums.

10. Other safeguards to protect the profit account and the asset account. These may be summarized by asking the question: Are all safeguards set and working to protect these accounts?

A. B. A. PUBLICATIONS USED

IN the 15 meetings recently conducted, the need of what might be called a textbook on several subjects was anticipated. This need was supplied by utilizing several publications of the American Bankers Association, which were passed out at each meeting to all bankers indicating an interest in the subjects covered. The most numerous calls were for the booklet entitled "The Most Satisfactory Way to Figure Interest"; the article on "Better Control by Accrual Accounting", from the July number of the A. B. A. JOURNAL; *and the article on "Measured Service Charges", also appearing in the July* JOURNAL. The booklet on interest was written by J. V. Holdam, assistant vice-president of the First National Bank and Trust Company, Chattanooga, Tennessee, for the use of the Savings Division of the American Bankers Association; the article on accrual accounting, suggesting monthly accruals adapted for the use of country banks, came from the pen of Arthur B. Taylor, Chairman of the Bank Management Commission of the American Bankers Association and president of the Lorain County Savings and Trust Company of Elyria, Ohio; and the discussion of measured service charges was written by Orval W. Adams, vice-president of the Utah State National Bank of Salt Lake City and a member, Bank Management Commission, American Bankers Association.

It is the hope that the experience of Georgia bankers will blaze the trail for this important use and application of the American Bankers Association's bank management studies and literature in every one of the 48 states and the District of Columbia.

LOOKING AHEAD

SUCH a development would serve a number of important ends. It would expand the study and assimilation of bank management literature, which is provided by the A. B. A. at great expense and labor, to a degree not heretofore realized. It would cause sound bank practices to be evolved and adopted along uniform lines in the various states. It would improve the usefulness of the American Bankers Association to the several state associations, and the usefulness of the state associations to the American Bankers Association, thus accomplishing the major result of developing closer cooperation between the national and state bodies.

THE second part of the Georgia Bankers Association's double program is concerned with speeding up and expanding the creation of home markets and farm depots to provide cash outlets for the excess production resulting from the live-at-home farm program; and adapting the principle of directed credit to the processes of distribution, in view of its previous effective use in stimulating production. Practical marketing plans for Georgia products have been made effective in approximately 100 counties of the state, embracing both wholesale and retail distribution; and roadside markets, curb markets and canneries have been established to an even greater extent.

Diversification of farm products has been induced largely through directed credits by bankers, and cotton has now been reinforced as the single cash crop of Georgia by a wide variety of products. Farming has been revolutionized to the extent that everything necessary for life on the farm has been produced in abundance for the past two years.

MARKETS FOR SURPLUS PRODUCTS

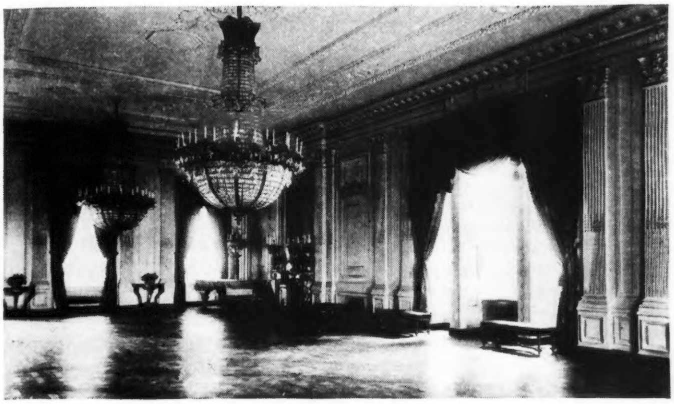
THE big problem now confronting the state is that of creating ready markets for the surplus products. Practically every section is oversupplied with a certain article and in need of another. New channels of distribution have to be set up.

Last spring the leaders of the Georgia Bankers Association and the State College of Agriculture inaugurated a campaign to create farm markets and depots at points of concentration throughout the state for the purpose of assembling, grading, cleaning, packing and marketing surplus products. At the annual convention of the state association in April, the program was heartily endorsed and was designated as the objective of the agricultural committee for the year. Since that time the bankers and state college leaders have worked constantly toward that end, climaxing their efforts in the recently completed zone meetings.

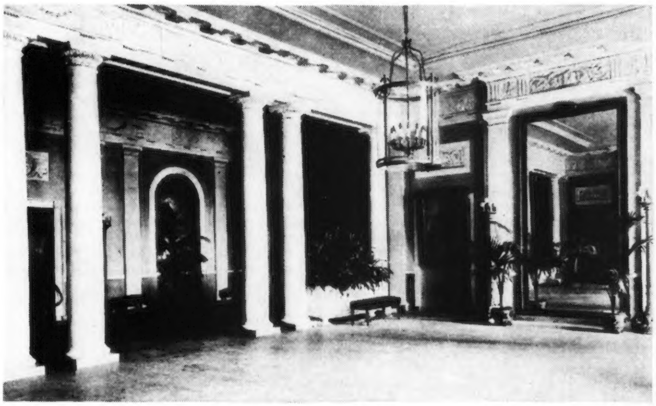
Georgia spent more than $48,000,000 last year for staple products shipped into the state from outside sources. The new marketing movement of the association is a development of the live-at-home program, created for the purpose, ultimately, of keeping this entire amount of money within the borders of the state. The expansion of the two ideas is estimated to reduce the need of imported products by one-fourth to one-third of their former volume. Calculated on reduced (CONTINUED ON PAGE 66)

THE WHITE HOUSE

Symbol of Continuing Authority



The East Room in the White House



Above: the hallway on the first floor
Right: main doorway, with swinging lantern

PHOTOS BY GALLOWAY

The fireplace and a general view of the State Dining Room

Understanding the Terms and Methods of—

Accrual Accounting

By T. J. BARCLAY

In July Arthur B. Taylor, Chairman, Bank Management Commission of the Association, and president, Lorain County Savings and Trust Company, Elyria, Ohio, discussed better control methods through the installation of accrual accounting. His article and the Commission's Booklet No. 10 have aroused widespread interest. Mr. Barclay of the First National Bank, Mason City, Iowa, explains here the operational details

IF BANK accrual accounting deserves its nickname, "a cruel accounting", it is probably due more to the confusing nomenclature than to any actual abstruseness. That the *principle* of the accounting is understood and approved is well attested by the large number of banks which have recently adopted the system, and the many others that are considering the change. But an understanding of the principle has not always meant an understanding of the terms and the methods of application. Unquestionably accrual accounting has gained the reputation of being difficult, particularly among those who received their training under the cash receipt and disbursement system, and have little opportunity now to familiarize themselves with the new details of operation.

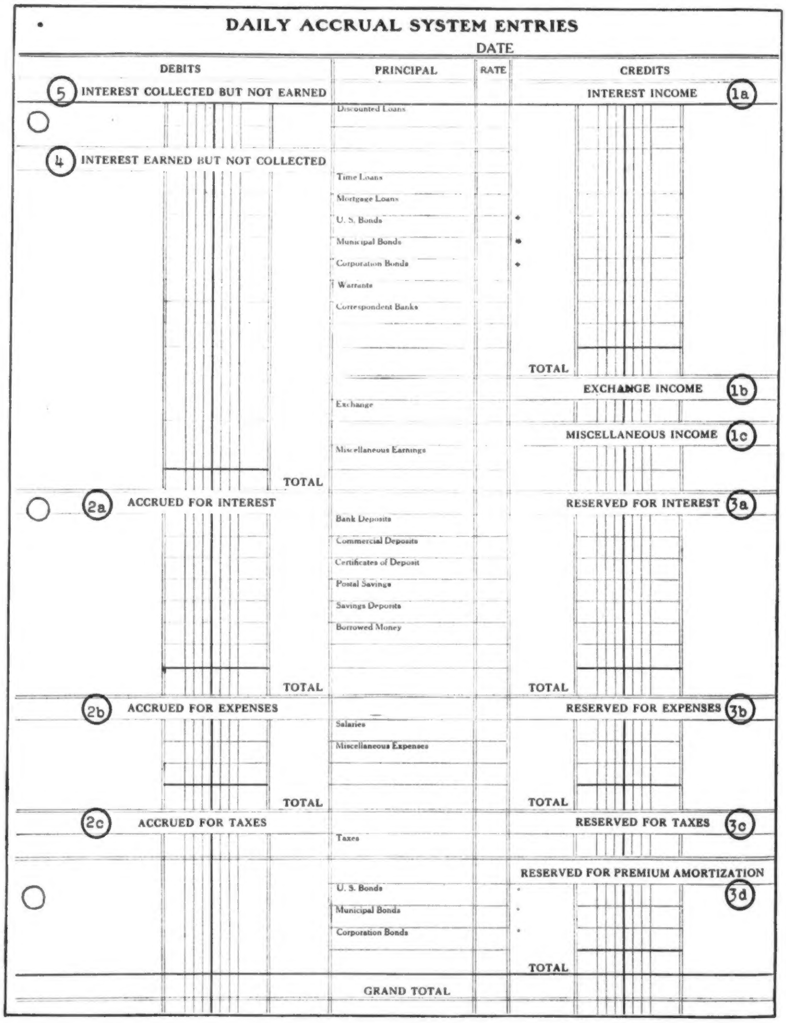
An excerpt from a bulletin of the Minnesota state banking department voices the general feeling—"No particular objection is made to the installation of accrual systems in banks that have an auditor or comptroller. Much more careful records must be maintained, and the accounting system is somewhat complicated. Unless the bank has the personnel capable of keeping up this accrual system properly, we recommend the Cash Receipt and Expenditure method, which is simpler and more adapted to the average small bank than is the Accrual System."

AN ESSENTIAL OF PRUDENCE

IT would be unfortunate if an unnecessary complexness were to put accrual accounting in the category of a luxury to be indulged in by only those banks which can afford all the frills. It has real value which should not be denied any bank. If being aware of the current earning position and governing dividend and other policies accordingly is prudent banking practice, then accrual accounting is an essential of prudence. In cash accounting, the current earning position is hidden under a maze of receipts and disbursements for past and future events. The fact that the installation of an accrual system often reveals an excess of hidden earnings over hidden expenses, thereby increasing net earnings, has been used as an argument against the conservatism of accruals. But the truth is that while the cash system may conceal excess earnings eleven months out of the year, the twelfth month in which a net loss is concealed might prove disastrous. In two ways does accrual accounting offer protection. It shows the current earning position of the bank, and it detects the misapplication of cash receipts or disbursements.

To get a clear picture of the accrual accounts as they are carried in the General Ledger, let us divide them into five groups: (1) Earnings Accounts, (2) Expense Accounts, (3) Reserve Accounts, (4) Uncollected Earnings Accounts and (5) Unearned Receipts Accounts. It is here that one feature of flexibility is evident: each group can contain as many or as few accounts as the size of the bank calls for. Most banks find the accounts outlined on the

Daily Shift Sheet. Encircled numbers refer to the outline on the opposite page



Clarifying the Nomenclature
Demonstrating the Flexibility
Outlining the Operations

accompanying chart a convenient number, with the possible exception of group 4 which is often cut down to one account. Although visualizing the accounts by groups (according to function) will help, it is still important that the accounts themselves be properly named, to minimize further the chance of confusion.

The "Earnings Accounts" take the place of the old "Income Received" accounts of the cash system, so it is not surprising that there is a tendency to call the new accounts "Interest Income", "Exchange Income", and "Miscellaneous Income". The term "income", however, implies "received", while as a matter of fact not all of the earnings have been received, and not all of the receipts are earned. So, the names "Interest Earned", "Exchange Earned", and "Miscellaneous Earnings" are more applicable.

Under the cash system, the Expense Accounts were usually "Interest Paid", and so on. In the accrual system they turn up under a wide assortment of names. A surprising number of banks use the names "Accrued for Interest", "Accrued for Expense", etc.—terms which tend to confuse the accounts with the Reserve Accounts, as the "for" suggests that the accounts represent something set aside *for* Interest, Expenses and Taxes. "Accrued *on* Expenses" would be more accurate, as that is exactly the way in which the accounts are built up; but those terms would mean nothing to anyone who was not familiar with accrual accounting. The terms "Expenses Accrued", and so on, used by many banks, are misleading because they imply that the entire amount "accrued" is unpaid, while a part—perhaps most—of the amount has been paid. Inasmuch as the accounts represent the expenses that have arisen, whether paid or unpaid, since the last regular closing of Net Earnings into Undivided Profits, the names "Interest Expense", "Expenses", and "Tax Expense" had best be used. To use simply "Interest" might lead to confusion with Interest Earned.

No instances of misnomers among the Reserve Accounts have been encountered. The names "Reserved for

The author's outline of accrual system entries, described in the accompanying article. Compare this with the Daily Shift Sheet

INSTALLATION OF ACCRUAL SYSTEM (after regular closing of Earnings and Expense accounts into Undivided Profits)

Segregate Time Loans and Investments as to rates. Compute the amount of interest earned but not collected.	Compute the amount of discount received that is not yet earned.	Determine actual, known miscellaneous earnings due but not yet collected.	Compute the amount of interest expense accrued but unpaid on; Due to Banks, Comm'l Deposits, Ctfs. of Deposit, Postal Savings, and Savings Deposits.	Determine the amount of salaries and miscellaneous expenses accrued but unpaid.	Compute the amount of taxes accrued but unpaid.	Compute the amount that should be accumulated to date to amortize premiums paid for bonds.	Determine that part of discount paid (on borrowed money) which has not yet been earned by creditor.
Dr 4a Cr UndPr	Dr UndPr Cr 5	Dr 4c Cr UndPr	Dr UndPr Cr 3a	Dr UndPr Cr 3c	Dr UndPr Cr 3c	Dr UndPr Cr 3d	Dr 3a Cr UndPr

DAILY SHIFTS

The day's interest earned on discounted loans.	Dr 5 Cr 1a
The day's interest earned on Time Loans, Bonds, other investments, and Due from Banks.	Dr 4a Cr 1a 3d
An average day's exchange earnings.	Dr 4b Cr 1b
An average day's miscellaneous earnings.	Dr 4c Cr 1c
The day's interest expense on Deposits and Borrowed Money.	Dr 2a Cr 3a
The day's salary expense.	Dr 2b Cr 3b
An average day's miscellaneous expenses.	Dr 2b Cr 3b
An average day's tax expense.	Dr 2c Cr 3c

ACCRUAL SYSTEM ACCOUNTS

1. EARNINGS ACCOUNTS - - Credit Balances
   a Interest Earned
   b Exchange Earned
   c Miscellaneous Earnings
2. EXPENSE ACCOUNTS - - Debit Balances
   a Interest Expense
   b Expenses
   c Tax Expense
3. RESERVE ACCOUNTS - - Credit Balances
   a Reserved for Interest
   b Reserved for Expenses
   c Reserved for Taxes
   d Reserved for Premium Amortization
4. UNCOLLECTED EARNINGS - - Dr Bal
   a Interest Earned but Not Collected
   b Exchange Earned but Not Collected
   c Miscellaneous Earnings Not Collected
5. DISCOUNT RECEIVED, UNEARNED - Cr Bal

CASH ENTRIES

Cr 5	Unearned interest collected on new discounted loans.
Dr 5	Unearned discount returned to customers (when discounted loans are paid before maturity)
Cr 4a	Earned interest collected on Time Loans, Bonds, and other investments, and Due from Banks.
Cr 4b	Exchange, Float, Service, and Activity charges collected.
Cr 4c	Miscellaneous earnings received.
Dr 3a	Interest paid on Deposits and Borrowed Money.
Dr 3b	Salaries and expenses paid.
Dr 3c	Tax payments
Cr 3a	Unearned discount received back from creditors (as when rediscounts are paid before maturity)

OUTLINE OF ACCRUAL SYSTEM ENTRIES

Accrual Accounting Routine

A DEFINITE routine facilitates the operation of an accrual system. The following is suggested, making up the Statement to be inserted where convenient, as indicated in the accompanying article.

I. DAILY

1. THE General Ledger is posted as usual, including all cash entries to the intermedial accrual accounts.

2. Changes in the loans and discounts balances are posted in the Loan Interest Accrual Book, and the shifts are computed and entered on the Shift Sheet. (This is usually done by the loan teller while the General Ledger is being posted.)

3. Changes in the bond accounts are posted in the Bond Interest Accrual and Amortization of Premium Book, and the new daily interest shifts and daily amortizations of premium are entered on the Shift Sheet.

4. The principals of other shift sources are copied (from the General Ledger) on the Shift Sheet, and the amounts of the shifts are computed.

5. The total of interest-bearing balances in the Individual Ledgers is obtained and entered on the Shift Sheet; and the shift is computed.

6. The Shift Sheet is now totaled, and the totals are posted to the accrual accounts in the General Ledger. (It is not necessary to make out slips for the entries: the posting can be done directly from the Shift Sheet.)

7. The Accrual Book is posted, using the cash entries which were previously posted to the accrual accounts in the General Ledger, and the shift entries from the Shift Sheet. Although *totals* were posted from Shift Sheet to General Ledger, the individual shifts making up those totals are posted to the Accrual Book, according to source of the shift.

II. SEMI-WEEKLY (Daily, If Desired)

1. THE Accrual Book breakdown balances are proved by simply accumulating the minor balances of each accrual account and of the premium reserves, and comparing these totals with the totals in the General Ledger. If the totals fail to agree, entries can be checked against the entries in General Ledger and on Shift Sheet.

2. The General Ledger breakdown balances are proved. These breakdowns, it is remembered, represent cash income receipts and expense disbursements and are breakdowns of the intermedial accrual accounts, with accrual shifts omitted. To prove, for instance, the Interest Received on Time Loans breakdown of the Interest Earned but Not Collected account in the General Ledger, the Time Loans Sheet in the Accrual Book is used. Thus, on that sheet in the Accrual Book, the minor balance of Interest Earned but Not Collected with which the quarter was started, minus the new minor balance, plus the new Interest Earned minor balance, should equal the General Ledger breakdown balance. All other breakdowns are proved in the same way: old intermedial balance, minus new intermedial balance, plus accrual, equals cash receipts or disbursements. If any special reserves have been set up out of accruals, as the amortization of premium, it is necessary to add the amount of that deduction to the equation—to balance with the breakdown. Failure to balance indicates that all the cash entries were not posted to the breakdown, that an accrual shift or adjustment was inadvertently posted to the breakdown, or that an entry may have been posted on the wrong breakdown sheet or on the wrong Accrual Book sheet. It is a simple matter to check the entries.

III. MONTHLY (or Semi-Monthly)

1. CERTAIN minor balances of intermedial accrual accounts are closed out. Usually they are: "Exchange Earned but Not Collected", "Reserved for Salaries", "Reserved for Interest on Demand Deposits", and "Interest Earned but Not Collected, Due from Banks". In these accounts, the daily shift is supposed to balance out the cash receipts or disbursements by the end of the month. If, however, there has been an under- or an over-accrual, the shift for the last day is adjusted to close exactly the intermedial balance.

2. The Miscellaneous Earnings Not Collected balance is adjusted to agree with actual, known, uncollected miscellaneous earnings. In adjusting or closing intermedial accrual accounts, there is, of course, a corresponding entry to the associated earning or expense account.

IV. QUARTERLY

1. INVENTORIES are taken of actual unearned discount received, and uncollected interest earned. Those intermedial balances are adjusted to actuals, by making compensating entries to the earnings accounts. Of course, differences of any size are thoroughly investigated. There is a reason for every difference, and that reason should be found.

2. Earnings and Expense accounts are closed into Undivided Profits.

Interest", "Reserved for Expenses" and "Reserved for Taxes" are suited exactly to the accounts.

As to "Uncollected Earnings", again we find a diversity of practice. Many banks lump all uncollected earnings—interest, exchange, and miscellaneous—into one account called "Interest Earned but Not Collected". "Uncollected Earnings" would be a better name for such an inclusive account. Some banking departments prefer that small banks do not accrue on exchange and miscellaneous earnings, in which case "Interest Earned but Not Collected" would suffice. However, it is considered valid practice to accrue on miscellaneous earnings if such earnings are fairly uniform, if due care is exercised and if the accruals are adjusted once a month to agree with receipts. This accrual is no more illogical than the accrual on miscellaneous expenses; and it simplifies things to have them all on the same basis. The use of separate uncollected earnings accounts, as listed in the outline, is desirable when amounts of any size are involved.

There is rarely any tendency to have more than one "Unearned Receipts" account—the only important source being Discounted Loans. The account is often called "Interest Collected but Not Earned", but as this is so easily confused with "Interest Earned but Not Collected", it is suggested that "Discount Received, Unearned" be used.

In addition to the accounts in the General Ledger, a "Daily Shift Sheet" and an "Accrual Book" are necessary parts of the system. Since the main purpose of an accrual accounting is to show earnings and expenses *as they occur* rather than as the cash is received or paid, the Daily Shift Sheet, through which the earnings and expense accounts are built up, is the heart of the entire system.

The Shift Sheet reproduced with this article is a three-column sheet: one column for the principals of accrual sources, one for the accrual accounts which receive debit shifts, and the third for the accrual accounts which receive credit shifts. The shift is to the earnings accounts, as earned, from the store of unearned receipts—"Discount Received, Unearned"—and from earnings as yet uncollected—as "Interest Earned but Not Collected". And the shift is from the expense acounts, as accrued, to the reserve accounts. Thus the earnings and (CONTINUED ON PAGE 62)

The International Economic Conference

PLANS are being made for the meeting of representatives of creditor and debtor nations early in 1933 in Europe to suggest remedies for "the economic and financial difficulties which are responsible for or may prolong the present world crisis." The United States will have its representatives and, as a creditor nation, will necessarily take a prominent part in the discussions.

The conference will be confronted with a formidable group of problems which include international trade and tariff barriers, price levels and the movements of capital, debt payments, foreign exchange difficulties, monetary and credit policies and the stabilization of silver.

The gold standard and the status of silver are inevitably linked to the discussions, and the accompanying article reviews for JOURNAL readers the past 100 years and more of monetary conferences and the developments that have preceded the present agitation.

KEYSTONE—UNDERWOOD

Frederick M. Sackett, Ambassador to Germany, is one of the two American members of the organizing committee for the coming international economic and monetary conference. He and Mr. Davis were appointed by President Hoover

KEYSTONE—UNDERWOOD

Norman H. Davis of New York, serving with Ambassador Sackett as an American member of the organizing committee for the economic conference, is also a member of the American delegation to the disarmament conference at Geneva

The Career of Gold and Silver Since 1817

By

HERBERT M. BRATTER

In September, 1931, Mr. Bratter, who lives in Washington, contributed an article to the JOURNAL on "America's Gold Business". Here he provides an historical background for the gold and silver discussions that lie just ahead

AN INTERNATIONAL conference will soon be devoted, in part, to a consideration of currency and exchange. So much has been said and written concerning the desirability of a stable medium of international exchange that the subject itself needs no elaboration. However, it is interesting to recall that several international monetary conferences were held during the latter part of the 19th century and that they were prompted by a similar desire.

As early as 1817 France made its first efforts to promote a universal system of weights and measures based on the metric system. At the London International Exhibition in 1851 and at the Brussels International Statistical Congress in 1853 an international system of coins was extensively considered, as also at the Paris statistical congress two years later. The question continued to be discussed in the years immediately following, quietly fostered by the ambitious Louis Napoleon, who was planning a great exposition to be held at Paris in 1867.

The first important international monetary meeting to result in a treaty was that held in Paris in 1865. That meeting resulted in the formation of the Latin Monetary Union by Belgium, France, Switzerland and Italy, and other countries joined later. The Union was the result of circumstances that France was compelled to recognize, but from which it nevertheless advantageously profited. The four countries mentioned had for years had similar systems of coinage based on gold-silver bi-metallism. But the discovery of gold in California and Australia had resulted in appreciation of silver, which tended to be hoarded. Switzerland and Italy then lowered the fineness of their silver coins, and these found their way into France and Belgium. Hence, the desire for some international agreement on the subject of coinage.

Not aware of Louis Napoleon's unrevealed plans for enhancing French prestige by increasing the use of the metric system and the franc, our House of Representatives early in 1866 took action which would have authorized the President to facilitate the adoption of uniform coinage by the United States and foreign countries. This proposal was lost in the Senate, and was eventually abandoned when France made her plans known.

The Latin Union went into effect on August 1, 1866, and its first meeting paved the way for the Paris Exposition of 1867. Due to the relative abundance of gold at the time, a definite tendency to give up bi-metallism for gold made itself felt. France at that time favored

KEYSTONE – UNDERWOOD

Senator Borah of Idaho last May urged restoring silver to the "position it occupied before 1925". He said, "This is not an attack upon the gold standard, but a suggestion for supplementing and strengthening it"

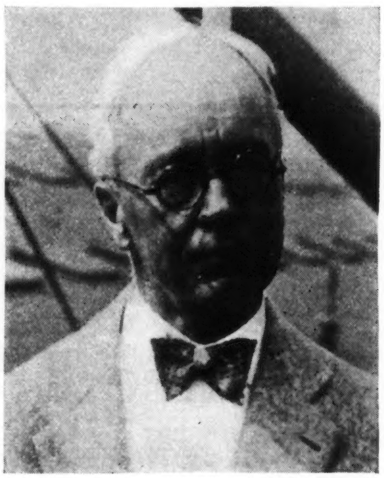
such a change, but very cleverly concealed its attitude. At the 1867 conference the delegates from other countries expressed the growing demand for a gold standard, and this demand France granted, with seeming reluctance. The conference did not mark the beginning of the gold movement, but it did mark a distinct turn in affairs of importance in the history of silver. Although only two of the nations at the 1867 conference then had the gold standard, all 20 of them—the United States included—voted for gold.

After 1867, the subject of an international monetary agreement was kept alive in the United States by diplomatic steps which, for over a year, failed to attract the attention of Congress. Senator Sherman, who had been in Paris at the time of the 1867 conference, brought up the subject of gold on several occasions in the Senate. Indeed, as we are informed by Henry B. Russell in his valuable history of the times, the gold cause was so popular in this country that Sherman claimed the gold standard as an American idea, accepted reluctantly by France. In 1870 he introduced a bill to promote the international use of the gold standard. The fact is that internationality was then almost a universal fad.

The first sale of demonetized silver with a view to adopting the gold standard was made by Norway in 1869. The first suggestion of international bi-metallism, on the other hand, came from Holland at about the same time. The defeat of France by Germany in 1871 put an end to the dreams of Louis Napoleon and naturally affected the monetary history of Europe. Germany, as part of its plans for unification, reformed its currency system and announced its intention to discard silver as a standard of value.

In 1872 Sweden and Denmark concluded a treaty for the adoption of the gold standard. Events moved to the disfavor of silver, the mine production of which was increasing while gold production declined. Coinage of gold exceeded production, and India's demand for silver declined. In 1877, the Latin Union suspended the coinage of silver, Holland having already done so.

As early as 1875 European bi-metallists urged the calling of another inter-



KEYSTONE – UNDERWOOD

Dr. Edwin W. Kemmerer, research professor of international finance at Princeton University. "The gold standard is far from being a perfect standard. . . . During the last generation, however, the value of silver has been even more unstable"

national conference. In 1876 Holland suggested such a conference in the interests of bi-metallism. In the United States the subject had not yet caught public attention. The "crime of '73" had not been discovered, and no one in Congress seemed to be at all disturbed about the American legislation of 1873 and 1874.

The beginning of silver discussion in the United States dates from April, 1876, when Senator Jones of Nevada first suggested an international bi-metallic agreement. Congress then appointed a silver commission which, in its report of March 2, 1877, recommended restoration of the double standard. Silver thereupon stepped to the footlights and held that place until almost the end of the century.

The legislation creating the Bland-Allison dollar in 1878 also authorized the calling of an international conference which, at the invitation of the American Government, was held in Paris the same year. Had America not previously commenced large-scale coinage of silver, the results of the conference might have been different. But, from the standpoint of the American Administration, the conference seems to have been simply a means of postponing consideration of the silver question at home. It had for its object "a common ratio between gold and silver."

Between 1867 and 1878 many changes had occurred. The United States delegation was now bi-metallic—also, Italy's. Belgium and Switzerland were the chief opponents of bi-metallism, and France, previously an eager exponent of international uniformity in coinage, was in 1878 lukewarm even to the thought of a conference. It seems that all Europe was now waiting to see how much silver America and Asia would take off the market, and so long as there was an outlet for the metal at the American mints, Europe preferred to mark time. If the Bland-Allison Law had been suspended, Europe would have been amenable. But as it was, the American silverites had been too enthusiastic at home and had injured their cause abroad. In Europe only the Austro-Hungarian mint by 1879 remained open to silver. The (CONTINUED ON PAGE 62)

KEYSTONE – UNDERWOOD

Senator Key Pittman of Nevada. At the last session of Congress he introduced a bill to have the Treasury purchase not over 5,000,000 ounces of silver a month at the market price for coinage into silver dollars and subsidiary coins

$24,281,346,000 in 44,352,106 Savings Accounts

By W. ESPEY ALBIG

This is the annual summary of savings deposits and depositors, prepared by Mr. Albig, Deputy Manager of the American Bankers Association

With the decline in business activity the People of the United States have been urged from many quarters to spend rather than to save part of their earnings. Economic ills would speedily be cured, it was claimed, if the recipients of earnings and wages would simply return their money to circulation by spending. What better answer could be given than this: that on the whole the savers have spent all their earnings and wages of the past year and in addition almost 14 per cent of the sum accumulated in previous years.—*The Author*

WITH the close of June 30, 1932, savings deposits as represented in savings accounts and time certificates in banks and trust companies of the United States aggregated $24,281,346,000, a decrease from a similar date of the previous year of $3,925,898,000; on the basis of reports received by the Savings Division, American Bankers Association. Thus the stagnation in agriculture, industry and commerce, which first manifested itself in 1929, took drastic toll of the backlog laid up by toil and money management during the prosperous years and turned back the savings total to a sum about $500,000,000 less than that of June 30, 1926. The total of almost $28,250,000,000 in 1928 suffered a slight recession in 1929. The continuing depression in 1931 threatened the all time record total of almost $28,500,000,000 on deposit in 1930. Those slight losses are insignificant when compared with the decrease representing an average loss this year of $33 and in some areas of more than $50 per inhabitant.

Of greater social significance than the decrease in savings deposits is the loss of 7,047,340 in the number of depositors, which dropped from 51,399,446 a year ago to 44,352,106. This decrease is in the face of a population increase of 752,400. The high record of 53,188,348 depositors in 1928 has now dwindled to 44,352,106, a loss of over 8,800,000, despite a population increase in the United States during this time of 4,809,000. Three states light up this melancholy roll of lessened number of depositors: Colorado with an increase of over 37,000, Tennessee with almost 9,000 and Missouri with almost 100.

The loss both in savings deposits and in depositors can not be explained away by reference to closed banks, hoarding or postal savings, although each has contributed a part. The reports show an advance of about $300,000 in postal savings redeposited in banks. Hoarded money a year ago was estimated at about twice the usual amount, $800,000,000 to $1,000,000,000. Although the sum hidden possibly increased for a time, later a considerable volume was returned to circulation. The present amount hoarded is probably not more than $500,000,000 in excess of that a year ago. Many of the closed banks have reopened, liquidated in part, or have been reorganized; therefore, the savings deposits held by them at the time of their closing can not entirely be added to the total of savings recorded for this year.

No great amount of wealth has been sent out of the country, for the financial stability of the United States during this year has not been seriously questioned. Stock and security purchases have been at a minimum. There remains the inescapable fact that the great shrinkage in savings has been caused by withdrawals for support, including the payment of that burden which has become so grievous—taxation.

What of the cry that if every person would spend $10 from savings, prosperity would be at hand? According to the record, every person during the year spent all his earnings and in addition $33 from his savings. Over 5.5 per cent of the population, or more than 13 per cent of the savers in banks, spent all their savings and closed their accounts. Yet prosperity waits "around the corner."

Saving and the depositing of that savings in banks, or investing it directly or indirectly, do not slow down the normal movements of trade and industry. The money is simply placed in other hands for spending. It is not removed from the ordinary channels of business. It is only utilized by persons other than those to whom it was originally paid for goods or services. The total purchasing power of the country is not one whit reduced by accumulated savings deposited in banks.

There remains no doubt of the necessity for savings, both from a social and an individual viewpoint. The individual must provide himself with a buffer of savings for the recurrent cycles of unemployment and low return from investments. Only in dreams does a plan of regularized industry, trade and commerce prevail. Socially, savings are necessary to replace the inroads made on capital by obsolescence, changed trends in industry and the friction of moving machinery. Progress will not be denied. Despite the present slight request for both capital and consumers' goods and the consequent decline in production and the demand for funds, the annual average 3 per cent production increase, now three years delayed, will eventually make itself felt. Warning against too great savings on the part of the people is scarcely necessary, particularly at this time when savings accounts alone in so many cases furnish

the only avenue between physical need and organized charity.

The clamor for spending is closely akin to the widespread belief that banks hoard savings or other deposits and thus remove them from use in trade and industry. The liquid condition of banks is emphasized as proving the fact. Liquidity does not imply hoarding. It connotes investments of the highest type which on brief notice may be converted by the bank into cash at approximately the same price for which they were purchased. Thus the demands of the banks' customers may be met promptly.

Individual deposits, made up of savings and checking deposits, have decreased since 1928. The decline during 1929 and 1930 was relatively slight, almost $700,000,000. For the year ending June 30, 1931, the more precipitate drop, amounting to $2,960,821,000, was but an earnest of the action for the year just closed, which registered a decline below 1931 of $8,557,341,000. Thus, since 1928 individual deposits have contracted from $51,199,264,000 to $39,306,214,000, or a decline of $11,893,050,000. In the face of this recession the loss in savings seems less serious.

Checking or demand deposits developed a lagging tendency in 1927, when they stood at $23,015,328,000. A year ago they amounted to $19,656,311,000. They continued to decline this year, falling to $15,024,868,000, the lowest point since 1919, a contraction of $4,631,443,000 under 1931. In relation to savings deposits they are lower than at any period covered by the tabulations of the Savings Division which run back to 1910. In that year checking deposits were 14 per cent greater than savings deposits, and in 1919 they were 18 per cent greater. They are now 38 per cent less.

Since demand deposits are in the main created by discounts, necessary under normal business conditions, it is not surprising that the volume of these deposits in a period of stagnation should reach a low point. An interesting conjecture would be the volume of checking deposits at the absolute minimum of discounts.

RUGGED NATURE OF SAVINGS

SAVINGS deposits in no case represent the proceeds of loans. They represent the balance between earnings or wages and expenditures. The rugged nature of savings is indicated by the fact that while checking deposits have declined about $8,000,000,000 since 1927, savings deposits have decreased less than $2,000,000,000.

Many disturbing factors entered into the savings situation this year. Their number is unprecedented, and it is impossible to point out the distinctive effect of each. Unemployment arises from many causes. Back of it are reduced prices for grain, dairy products, minerals and processed goods; lessened exports; and droughts. This year almost all the factors are destructive. In many of the farming areas mortgages have increased rapidly. A lowered price for products has called forth more production, so that quantity at a reduced price would supply the sorely needed money formerly secured through quality production at an advanced price. Diversification of crops is not always possible because of natural conditions of soil, temperature and rainfall. The brevity of the depression during 1920-1921 came through the demand for building construction and for automobiles. No such stimulus has appeared in the present recession.

In times of world-wide depression, as at present, a creditor country, such as the United States, suffers from the enforced decline of exports to debtor countries. These countries are under the compulsion of holding their meager supply of gold in order to support their currencies. Therefore, to husband it as

SUMMARY OF SAVINGS DEPOSITS AND DEPOSITORS IN THE BANKS AND TRUST COMPANIES OF CONTINENTAL UNITED STATES COMPILED FROM REPORTS RECEIVED BY THE SAVINGS DIVISION, AMERICAN BANKERS ASSOCIATION

(June 30, 1932)

States	*Savings, 1932 (000 Omitted)*	*(1) Per Inhab., Savings, 1932*	*Loss in Savings per Inhab., 1932 Over 1931*	*Per Cent Loss in Savings per Inhab., 1932 Over 1931*	*Per Cent Gain in Savings per Inhab., 1932 Over 1922*	*Per Cent Gain in Savings per Inhab., 1932 Over 1912*	*Number of Savings Depositors*
Maine	$ 301,483	$372	$36	8.8	25.3	94.8	640,666
New Hampshire	222,658	476	17	3.4	35.2	103.4	363,857
Vermont	182,180	506	47	8.5	28.4	119.0	312,483
Massachusetts	2,594,760	604	66	9.9	46.6	136.9	3,793,714
Rhode Island	357,754	513	47	8.4	36.1	90.0	396,404
Connecticut	862,804	528	50	8.7	47.1	110.4	1,394,818
New England States	**4,521,639**	**548**	**54**	**9.0**	**43.1**	**122.8**	**6,901,942**
New York	7,336,219	571	48	7.8	51.5	153.8	9,434,298
New Jersey	1,209,079	291	53	15.4	32.3	177.1	2,629,440
Pennsylvania	2,243,509	230	60	20.7	35.3	147.3	4,997,923
District of Columbia	116,598	237	†2	†.9	78.2	540.5	322,842
Delaware	62,774	262	5	1.9	53.2	249.3	121,546
Maryland	466,309	282	50	15.1	39.6	158.7	934,790
Middle Atlantic States	**11,434,488**	**393**	**51**	**11.5**	**76.2**	**160.3**	**18,440,839**
Virginia	217,993	90	11	10.9	25.0	181.3	552,341
West Virginia	117,226	67	15	18.3	—24.7	45.7	307,415
North Carolina	66,876	21	13	38.2	—51.2	40.0	*372,879
South Carolina	34,282	20	18	47.4	—63.0	5.3	77,997
Georgia	116,071	40	4	9.1	8.1	110.5	359,289
Florida	72,079	47	2	4.1	—37.3	80.8	*181,454
Alabama	72,524	27	6	18.2	8.0	125.0	*230,929
Mississippi	57,626	28	7	20.0	—12.5	154.5	93,204
Louisiana	121,535	57	9	13.6	7.5	147.8	392,341
Texas	183,030	31	7	18.4	40.9	287.5	*317,149
Arkansas	42,936	23	7	23.3	...	228.6	85,702
Kentucky	141,458	54	13	19.4	5.9	184.2	328,586
Tennessee (2)	126,626	48	12	20.0	— 4.0	152.6	*179,533
Southern States	**1,370,262**	**41**	**9**	**18.0**	**— 6.8**	**127.8**	**3,478,819**
Ohio	1,017,741	151	54	26.3	— 5.6	75.6	2,325,414
Indiana	257,326	79	27	25.5	17.7	38 6	*265,237
Illinois	835,561	108	39	26.5	—23.9	42.1	2,377,004
Michigan	810,185	163	37	18.5	— 5.2	68.0	2,048,469
Wisconsin	419,687	141	31	18.0	8.5	78.5	1,243,450
Minnesota	424,974	164	32	16.3	—14.1	84.3	856,623
Iowa	256,009	103	67	39.4	—48.5	— 9.6	521,166
Missouri	319,180	87	20	18.7	3.6	7.1	*879,282
East Central States	**4,340,663**	**126**	**39**	**23.6**	**—11.9**	**61.5**	**10,516,645**
North Dakota	40,310	59	16	21.3	—60.7	— 4.8	55,790
South Dakota	40,253	58	21	26.6	—68.1	—18.3	55,336
Nebraska	90,034	65	26	28.6	—47.6	1.6	228,880
Kansas	91,849	48	5	9.4	—21.3	77.8	247,608
Montana	50,106	93	21	18.4	— 7.9	50.0	76,462
Wyoming	20,005	87	22	20.2	—23.0	74.0	36,598
Colorado	97,825	93	4	4.1	—15.5	69.1	213,076
New Mexico	9,670	22	5	18.5	—43.6	29.4	*19,802
Oklahoma	88,253	36	8	18.2	— 5.3	300.0	*141,167
West Central States	**528,305**	**56**	**13**	**18.8**	**—37.1**	**40.0**	**1,074,719**
Washington	180,700	114	32	21.9	8.6	115.1	412,528
Oregon	97,752	100	26	20.6	6.4	138.1	254,802
California	1,699,123	319	7	2.1	3.9	94.5	2,945,795
Idaho	24,216	54	17	23.9	14.9	7.7	60,967
Utah	47,658	93	54	36.7	—10.6	50.0	*198,391
Nevada	16,609	179	43	19.4	7.8	121.0	23,183
Arizona	19,931	44	23	34.3	—36.2	131.6	43,476
Pacific States	**2,085,989**	**208**	**36**	**14.8**	**3.0**	**105.9**	**3,939,142**
United States	**24,281,346**	**194**	**33**	**14.5**	**20.5**	**120.5**	**44,352,106**
Hawaii	43,237	114	1	.9	...	...	172,436
United States & Hawaii	**24,324,583**	**194**	**33**	**14.5**	**20.5**	**120.5**	**†44,524,542**

†Includes complete reports from national banks in all states and from state chartered banks and trust companies in thirty-nine states.
—Decrease.
*No report of depositors in state chartered banks and trust companies received for 1932. Last reported figures used.
(1) Estimated census for July 1, 1932.
(2) June 15, 1932.

much as possible during a time when foreign loans are not to be had, when tariff barriers or embargoes or quotas hamper their exports to their creditors, who in turn expect interest and capital payments on their former borrowings, they deliberately and drastically reduce their purchases from their creditors. Thus, the export of gold is decreased.

Creditor nations are not numerous, being limited to Great Britain, France, Belgium, The Netherlands, Sweden and Switzerland, in addition to the United States. Debtor nations are numerous and include such countries as Germany, Canada, Italy, Japan, Australia and the South American countries. Therefore, the back-up of raw and finished products, which under normal conditions would be distributed to these debtor countries by the United States—one of the large creditor countries—has been most serious in its effect on employment in the United States. All this reduces earnings and consequently savings. The effect of foreign trade on the prosperity of this country has been too little understood and appreciated by the people of the United States, particularly in those areas not bordering on the sea. Naturally not all the states or divisions of the country faced recessions of similar proportions. In some areas there were a good many more factors operating than in others.

Fifth Avenue Feels Christmas

GALLOWAY

Spending versus saving. The point of view supplies the explanation. Those who see a great volume of injudicious buying and mortgaging of the future for its payment believe spending is out of all proportion to savings. Change the picture about so that the observer sees the great sums set aside from earnings and wages for savings, and he forgets the great volume spent and cries out against savings deposited in banks. The proper balance doubtless is being maintained.—*The Author.*

C/D'S AND PASS BOOKS

THE trend of savings from time certificates of deposit to savings deposits on pass books continues. Practice changes slowly. As the physical frontiers were pushed westward, banks found immediate use in commercial ventures for their deposits. Earnings not immediately spent by their owners were usually set aside for a specific object at a definite date in the future. The time certificate of deposit served this purpose admirably and enabled the bank to estimate its financial condition at any time.

As surplus earnings grew, savings departments were organized by banks; however, the change from the certificate of deposit to the pass book has been slow. The customer was loth to change. Many bankers did not take kindly to a system under which a depositor could call for his money at any time. The greater use of the pass book has benefited both. Ten years ago 15.4 per cent of total savings was represented by time certificates of deposit; five years ago, 12.5 per cent; and in 1932 time certificates of deposit represent but 10.8 per cent of total savings. More and more the time certificate is being used for its real purpose, that of arranging for the use of money by a bank up to a stipulated date, at which time the owner expects to apply it to a purpose that he had planned in advance of the money's deposit.

New England, with a loss per inhabitant of 9 per cent, may not have suffered severely from drought, for New England even in the summer time usually has copious rainfall; but potato prices in famed Aroostook County faded until they failed to cover the cost of package and transportation. The shade-grown tobacco brought a lower price, the machine tool industry lagged, the quarries suffered from light construction programs. Both the textile plants and the shoe factories were busy only at times. Fishery products had a lessened demand at a lower price range.

The recession of $429,000,000 means that $54 is subtracted from the savings account of each man, woman and child in New England. The savers who closed their accounts number 590,000—more than the population of either Vermont or New Hampshire. Since the greatest recessions in savings deposited in banks in this area occurred in Massachusetts and Connecticut, the popular hysteria which swept several districts in those states apparently brought in their wake an augmented loss in savings and an abnormal decline in savings depositors. Despite the decline in savings deposits, Massachusetts continues to head the list with the highest deposit per inhabitant, $604. Since 77 per cent of the individual deposits last year were savings deposits, the decrease of $750,000 in individual deposits took heavier toll of savings deposits than of demand deposits.

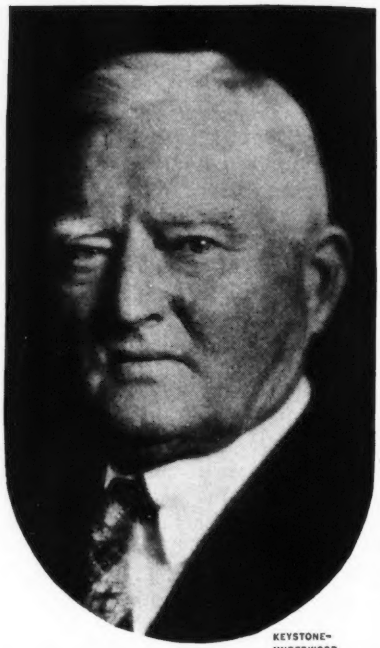
MIDDLE ATLANTIC STATES

THE Middle Atlantic states always do things in a large way. It is true in decrease in savings. From a total of $12,857,527,000 a year ago to $11,434,488,000 now, the loss is $1,423,039,000, or $51 per inhabitant. New York, which has a savings aggregate of more than any four other states, if we eliminate California from the list, has suffered this year from low prices on farm and dairy products, stagnation of industry, depressed transportation and a disappearing foreign commerce. Naturally, unemployment, part-time work and reduced wages, with consequent drain on savings funds, have been prevalent. Despite this situation New York follows Massachusetts closely in amount of savings per inhabitant, $571. The loss from last year is $48 per person.

This loss is only slightly less than Maryland, with New Jersey closely following, and Pennsylvania considerably in the rear with a loss of $60, or over 20 per cent. Delaware withstood the shock with a loss of only $5, or 1.9 per cent. The District of Columbia, which draws such a large part of its sustenance from governmental activities, rolled back the tide (CONTINUED ON PAGE 43)

THE MONTH

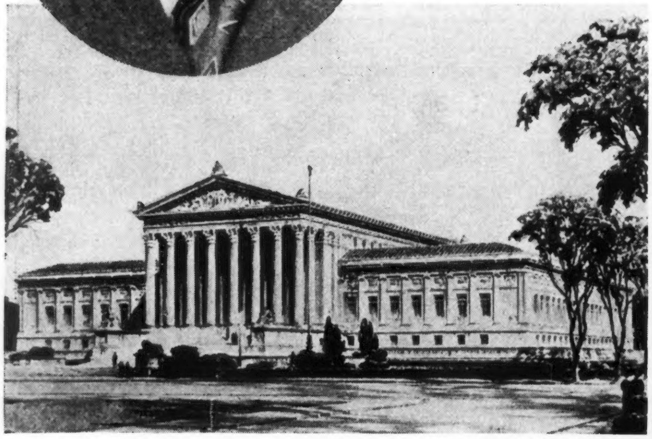
GALLOWAY



KEYSTONE-UNDERWOOD

PRESIDENT-ELECT: He extended "deep appreciation to the electorate of this country which has given me this great vote of confidence. . . . This clear mandate shall not be forgotten"

VICE PRESIDENT-ELECT: November 8. Nine P.M. "Well, it's all over. There's no use in staying up any longer"



KEYSTONE-UNDERWOOD

JUSTICE: How the home of America's highest tribunal in Washington will look when completed

GALLOWAY

CHILDREN: The welfare and happiness of thousands of children are threatened by the depression and the gains of two decades are at stake, said Newton D. Baker, reporting as chairman of the Welfare and Relief Mobilization of 1932

KEYSTONE-UNDERWOOD

HUNGER: England's "hunger marchers", including a women's section, converged upon London to protest against the unemployment means test. Photo shows a young girl addressing a meeting in Luton

EDITORIALS

The Glass Bill

THE GLASS BILL in its present form provides 23 specific changes in the Federal Banking statutes. When Senator Glass introduced the measure last April he said that the situation called for immediate action. Fortunately in the intervening seven and a half months, whatever reasons for haste there might have been have disappeared. Congress is now able to approach consideration of the Glass Bill or other banking legislation in a calm spirit that will do much to reassure American business and hasten recovery.

The general outlook has changed for the better and there is no reason why the psychology of last spring should carry over into the deliberations of Congress this winter, particularly with reference to fundamental alterations in the banking laws of the United States. On the other hand the situation calls for the utmost caution and a spirit of mutual goodwill and devotion to the country's best interest regardless of political or party considerations.

TWO YEARS AGO

THE present Glass Bill had its inception in Senate Resolution, No. 71, passed in the second session of the Seventy-first Congress. Under the terms of this resolution the Senate Committee on Banking and Currency, through a special subcommittee, was directed to make a careful survey of the Federal Reserve and national banking systems, and to report its findings, together with recommendations for the "more effective operation" of both systems.

Hearings were held during January and February, 1931. Some witnesses were invited to appear and others asked for permission to testify. Information was obtained also by questionnaires addressed to banks and by special investigations conducted under the auspices of the subcommittee.

Summing up the results of these various activities Senator Glass stated in his report (dated April 22, three days after the present bill was introduced) that public opinion was found to be "in an indeterminate state on the whole subject" and that it would be better to defer the preparation of a "completely comprehensive measure for the reconstruction of our banking system". Therefore the bill as it now stands is intended to supply certain immediate measures of reform, a prelude in other words to the "completely comprehensive" bill that is promised later.

THREE TIMES

ON January 21, 1932, Senator Glass introduced a bill (S. 3215) based on the findings of the subcommittee, but considerable opposition developed on the part of the banks to certain fundamental faults and the bill was withdrawn. A revised bill (S. 4115) was introduced on March 17. Once more an unfavorable reaction required its return to the subcommittee. Finally, a new bill (S. 4412) was introduced, on April 18, and reported to the Senate on the same day from the Committee on Banking and Currency.

That, in brief, is the background. One reason for the objections of bankers to the bill in its January 21 and March 17 forms was that it attempted to embrace in one Omnibus measure a variety of fundamental and unrelated changes, and that it would be impossible on that account to give each suggested change the study it deserved. This same objection, in lesser degree, might be raised against the bill in its present form. Indeed, one cannot read it without questioning the wisdom of trying to include within one bill so many important innovations in banking, each one of which would better be considered wholly on its individual merits.

CALLOWAY

The Meaning of Liberal

DR. NICHOLAS MURRAY BUTLER said recently that the Republican Party should liberalize itself. This declaration, coming from a distinguished person, would be an event in any case, but in addition to furnishing the suggestion, Dr. Butler went on to give what is probably the first authoritative definition, politically speaking, of "liberal". A word that is used as frequently as liberal (or progressive) must mean something and should not be used merely to indicate perhaps, more or less, what the person using it might have intended it to mean perhaps at the moment, so to speak, when he used it.

Dr. Butler says that the liberalization of the Republican Party means the espousal of balanced bud- (CONTINUED ON PAGE 54)

Its yield has not measured up to anticipations, but the bill has not yet had time to show what it can accomplish.—*The Author*

[PUBLIC—No. 154—72D CONGRESS]
[H. R. 10236]
AN ACT
To provide revenue, equalize taxation, and for other purposes:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act, divided into titles and sections according to the following Table of Contents, may be cited as the "Revenue Act of 1932":

The 1933 Deficit—

$1,600,000,000 or $360,000,000—Will Government Economies Make Greater Tax Levies Unnecessary?

By
WILLIAM P. HELM

When the new tax law hits its stride, the author believes that it will narrow the gap between outgo and income to about $1,000,000 a day, or considerably less than some estimates. Mr. Helm is a Washington writer on political and financial subjects

•

THE prevailing fear that another huge Federal tax levy will be necessary soon to balance the national budget appears unwarranted. Analysis of the Government's figures of income and outgo shows a distressing trend toward another big deficit at the close of the current fiscal year, but it also indicates quite clearly that the deficit will not be so large as October forecasts have made it.

What does not lie on the surface of these figures is the fact that the latest Federal tax bill is producing better results than it is generally credited with producing. Its yield has not measured up to anticipations, but the bill has not yet had time to show what it can accomplish. The first full month's returns on the manufacturers' excise and miscellaneous taxes fall far below the yield as estimated when the tax bill was passed, but because of the lag between the collection of the tax and its deposit in the Treasury, even the first month fails to give a correct picture of what the actual yield will be.

That lag apparently has not been taken into merited consideration even by the proponents of the new tax law and, as a result, estimates of the prospective deficit on June 30 next have ranged between $1,000,000,000 and $1,600,000,000. These estimates have found force in the fact that by mid-October the deficit had passed the round total of $550,000,000. For the first three and one-half months of the fiscal year, the deficit accumulated at the rate of about $160,000,000 a month. Therefore, so runs the argument, for the full 12 months it will amount, at that rate, to 12 times $160,000,000, or $1,920,000,000. Knock off a few hundred millions for a possible pickup later in the year and the outside prediction of $1,600,000,000 is the result.

OTHER LEVIES ACCOUNTED FOR

THIS method of forecasting, however, allows nothing for increased collections of individual and corporation income taxes because they will not begin to pour into the Treasury until next March 15—and the fiscal year ends June 30. There will be two collections of those taxes—March 15 and June 15—within the year. They do not appear at all in the Treasury statement now, of course; but their effect on reducing the apparent deficit will be very real and substantial toward the latter part of the year.

Nor have two other substantial provisions of the new tax law appeared as yet in the Government's financial statements. These cover the estates tax which will not begin to operate before next summer so far as receipts are concerned, and the limitation of security losses and other changes, largely administrative, in the income tax administration. That item amounts to $80,000,000. And another still absent item, though a minor one, is the gift tax, estimated to yield $5,000,000 a year.

A careful study of the figures leads to the conclusion that when these provisions of the law begin to show their effect, they will cut wide swaths into the year's deficit. Indeed, it seems altogether probable that the deficit for the current year will be held to around $750,000,000, due to their operation, although it is equally likely that it will swing up to $1,500,000,000—and may exceed that figure—by next March 15. From that date, however, it should begin to fall rapidly.

If the Treasury were to be under the necessity of raising $750,000,000 additional by taxes to balance *this year's* prospective deficit, then the gloomy forecasts for a huge new Federal levy would be justified. But, apparently, the Treasury will be under no such obligation. That deficit in all likelihood will be financed, as were the deficits of 1931 and 1932, by borrowings. The raising of additional levies by taxes, from long-established custom, is pointed at the coming fiscal year.

And even on the first month's returns under the new tax law, incomplete though they are at this time, the clear indication is that when the new law gets into full swing, the maximum difference between receipts and estimates hardly will exceed $30,000,000 a month, as will be shown presently. On a 12 months' basis, therefore, the prospective deficit for 1934—the fiscal year—would approximate (CONTINUED ON PAGE 40)

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(CONTINUED FROM PAGE 38)
$360,000,000. That would be the additional amount required in new taxes.

The choice therefore would present itself as follows: Shall the $360,000,000 be raised by fresh taxes, or shall the deficit be met by cutting the Government's spendings by $360,000,000 or more a year?

The latter course can be followed. And if it is followed, the need for any new imposition of taxes at once is dissipated, and the present tax law would suffice.

FIRST MONTH'S INDICATIONS

THIS assumption is predicated upon two bases: first, that the present rate of Government spendings is not increased; and, second, that the Treasury's estimates for additional yield from the higher income tax levies are fairly sound. There seems adequate ground for believing that these estimates are conservative and much nearer the mark than were the estimates of yield of manufacturers' excise and miscellaneous taxes. The Treasury is in possession of accurate records on which to base its income tax forecasts, but it is at the mercy of market and other vagaries which cannot be foretold accurately in computing excise and miscellaneous taxes.

The accompanying tables show the extent of apparent error in making up estimates of yield from the excise and miscellaneous taxes. In the columns marked "estimated" are given the amounts expected in tax yield of each item at the time the tax bill was passed. The column marked "probable yield" in each case simply projects for 12 months the actual yield to the Treasury for the first full month of collections, as announced by the Bureau of Internal Revenue late in October. That full month covers collections in September, and these in turn cover business done partly in August, because the law allows 30 days in most instances for returns to be made to the Treasury.

Here, then, is a showing based on the *first* month of the law's operation, and there seems to be little room for doubt that it is below what the actual collections will total for the year. In some cases, it is apparent that the figures are materially below what may be expected in the future, for the tax was levied on goods manufactured *after* the law was passed; and August sales were, in large measure, of goods made *before* the law was passed—goods already on retailers' shelves and on which no tax was collected when they were sold to the consumer. Later months undoubtedly will carry the yields to higher figures.

Table I. Manufacturers' Excise Taxes

Commodity taxed	Annual Yield Estimated	Annual Yield Probable
Lubricating oil, 4c per gal.	$ 33,000,000	$ 16,800,000
Brewers' wort, 15c per gal.; Malt sirup, 3c per lb.; Grape concentrates, 20c per gal.	82,000,000	9,780,000
Imported gasoline, crude oil, etc., coal, lumber and copper	6,500,000	6,500,000
Tires and tubes, 2½c and 4c per lb.	33,000,000	16,044,000
Toilet preparations, 10%; soaps, 5%	13,500,000	10,200,000
Furs, 10%	12,000,000	7,440,000
Jewelry, 10%	9,000,000	2,172,000
Passenger automobiles, 3%	32,000,000	12,936,000
Trucks, 2%	3,000,000	1,608,000
Parts and accessories, 2%	7,000,000	4,006,000
Radio and phonograph equipment, 5%	9,000,000	1,992,000
Mechanical refrigerators, 5%	5,000,000	1,284,000
Sporting goods and cameras, 10%	5,000,000	2,436,000
Firearms and shells, 10%	2,000,000	624,000
Matches, wood, 2c per M; paper ½c	4,000,000	1,356,000
Candy, 2%	4,000,000	3,672,000 (Candy and Chewing gum)
Chewing gum, 2%	1,000,000	
Soft drinks, various rates	7,000,000	6,888,000
Electrical energy, 3%	39,000,000	24,480,000
Gasoline, 1c per gal.	150,000,000	136,908,000
Total yield, as estimated at the time the tax bill was passed	$457,000,000	
Probable yield on basis of returns for first full month	267,126,000	
Overestimate (about)	$190,000,000	

Table II. Miscellaneous Taxes

Subject of taxation	Annual Yield Estimated	Annual Yield Probable
Telephone, telegraph, radio and cable messages	$ 22,500,000	$ 16,008,000
Admissions	42,000,000	18,072,000
Stamp taxes:		
Issues of stock and bonds	6,500,000	7,692,000
Transfers of stock and bonds	25,000,000	51,840,000
Conveyances	8,000,000	8,000,000
Future sales of produce	6,000,000	4,632,000
Oil transported by pipe lines	8,000,000	5,304,000
Leases of safe deposit boxes	1,000,000	2,448,000
Checks	78,000,000	45,516,000
Boats	500,000	168,000
Total yield, as estimated at the time the tax bill was passed	$197,500,000	
Probable yield on basis of returns for first month	159,680,000	
Overestimate (about)	$ 38,000,000	

FINALLY, THESE TOTALS

HOWEVER, even on the basis of that early showing, the manufacturers' excise tax would yield $267,000,000 during the present fiscal year, which compares with $457,000,000 estimated. The maximum failure of that provision of the law toward balancing the budget would be $190,000,000.

Similarly, the miscellaneous taxes would fall (CONTINUED ON PAGE 71)

$24,281,346,000 in 44,352,106 Savings Accounts

(CONTINUED FROM PAGE 35)

of recession and advanced its savings $2 for each inhabitant of the district. However, the savers who closed their accounts numbered 2,200 more than they who opened them. The District of Columbia alone of all the list showed a gain in savings deposits.

Pennsylvania fared badly. The chronic illness in the bituminous coal industry, lessened activity in anthracite due to substitutes for heating, low operating schedules in the heavy iron and steel industries, low prices for dairy, farm and poultry products, and decreased activity on steam railroads could not fail to be reflected in a heavy loss in savings deposits. The fear of the stability of banks after popular unrest had demonstrated how easy even a solvent bank could be closed had a place in the decrease of deposits and the more than 1,000,000 loss in savings depositors.

Maryland more and more in recent years has quickened to the increasing sea-borne commerce, shipbuilding, iron and steel industry, market gardening, farming and fishing. All of these industries are now in eclipse. The decrease in depositors in the Middle Atlantic states stands at 1,582,690, a figure only slightly less than the population of Maryland.

SOUTHERN STATES

FOR two years in succession savings have suffered in the Southern states. The deflation of 1929 showed early in the price of farm products of all kinds. Wages in industry for the most part remained with little change till comparatively recent months. Florida, a member of the Southern states, geographically if not in products, is leading the way back, having suffered only a $2 per inhabitant loss this year against $10 last year. Louisiana and Texas, two states which a year ago faced the oncoming storm with little or no loss in savings, this year suffered heavily. Tennessee is the most eastern state to show a gain in savings depositors, the increase amounting to 8,943. The whole group has a diminution of $9 per inhabitant and a loss of 500,637 savings depositors. The decrease in savings deposits is considerably less than one-half the decrease in individual deposits.

In this area in normal times the supply of demand deposits in banks is not sufficient for financing industry and trade. Therefore, savings deposits are used for this purpose rather than in the manner contemplated by the savings business. This action serves to keep the interest rate on savings deposits low, for returns on commercial banking do not justify higher rates.

During times of popular unrest wise bankers will not risk investing money in first class mortgages on homes or other improved property, or in long-term bonds. To do so involves them in the possible embarrassment of needing money to meet the demands of their customers and being unable to secure it because the mortgages and bonds are not eligible for discount at the Federal Reserve banks. Eligible paper does not yield a large return. Although the Federal government, through the Federal Reserve system, aims to facilitate the commercial business of the country, it has developed for times of stress no machinery for safeguarding or assisting the bank which receives and invests in other than paper eligible for discount the people's savings, a sum that now comprises 62 per cent of the individual deposits of all the banks in the United States.

EAST CENTRAL STATES

THE East Central group, made up of Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa and Missouri, follows the Middle Atlantic states in the volume of savings deposits, and has within its borders the greatest diversity of climate, production and industry. Last year this group, due to slackening demand for machined products and the products of farm and dairy and mine, was unable to continue the upward swing of savings deposits. This year the recession was drastic, ranging from a loss of $20 per inhabitant in Missouri to $67 in Iowa. The decline in savings deposits amounted to $1,317,286,000, or 23.6 per cent, the greatest loss in any group, and less by only $106,000,000 than the loss in the Middle Atlantic states, with deposits more than twice as much.

The loss in depositors is on the same large scale, being 3,741,569, or considerably more than twice the loss in the Middle Atlantic states, although the population of the East Central states is scarcely more than one-sixth greater. Missouri, the state showing the least loss per inhabitant in the group, is able to show an increase in the number of depositors, 94.

In this group also the decrease in individual deposits is greater on the side of demand deposits than on that of savings deposits.

WEST CENTRAL STATES

THE West Central states are preeminently given over to farming, stock-raising and mining. Practically all of these industries have been depressed for two or more years. Not only have prices decreased, but markets have disappeared. Increased acreage given to wheat in Argentina, Canada and other countries farther distant has proved ruinously competitive with American wheat. Beef and pork products lack a good market. The sugar beet industry has fared better and the production of gold has increased. The world-wide depression has reduced the consumption of cotton, with a natural lowering of the price.

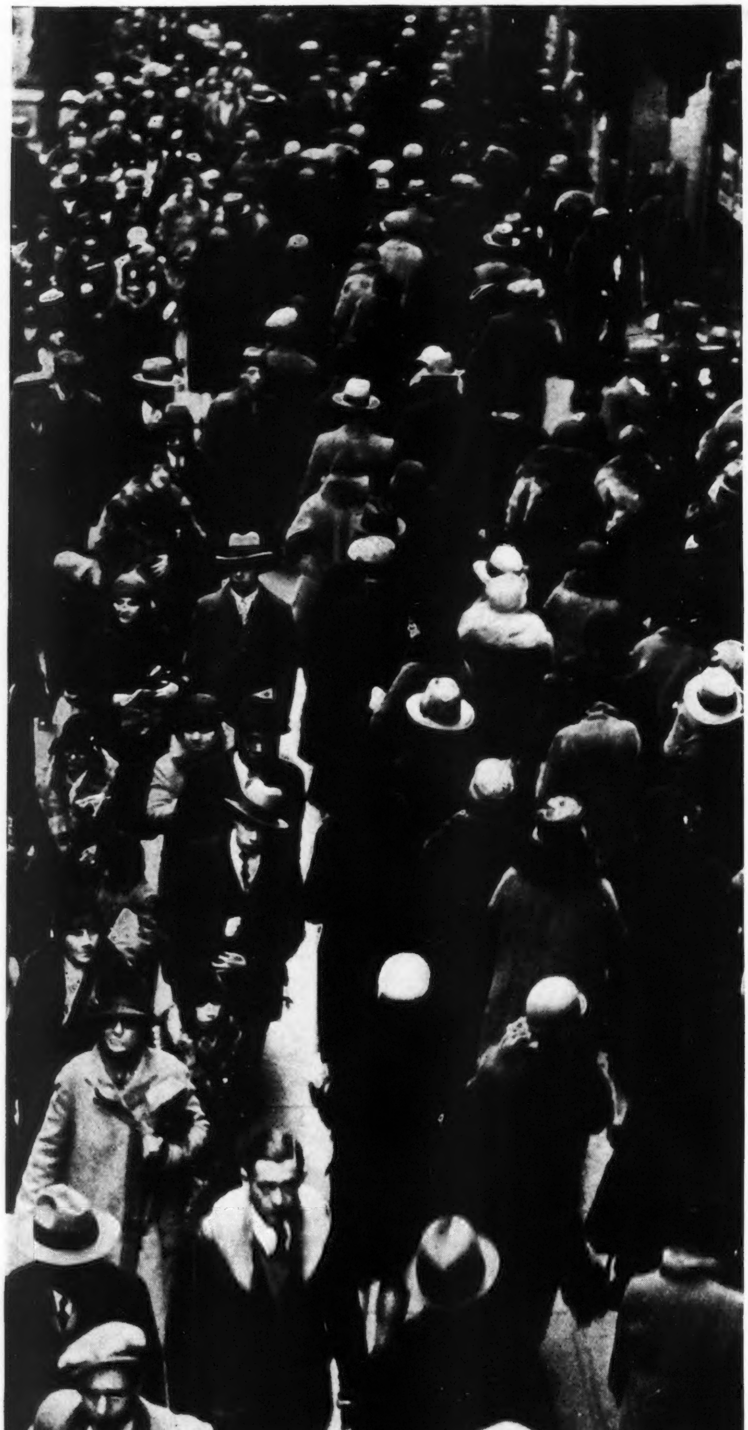
The weight of farm mortgages, following the high land prices of war time and the later period, makes an intolerable burden in many areas and prevents a surplus of earnings for savings deposits. Savings deposits decreased 17 per cent from a year ago and the number of depositors declined by 140,717, equal to more than one-half the population of Wyoming. The decrease in savings deposits was only slightly more than one-third of the decrease in individual deposits. Colorado, the center of the sugar beet industry, alone of all the states in this group, showed an increase in savings depositors, 37,147.

PACIFIC STATES

THE decrease in savings in the Pacific group shows a wide range among the various states. The smallest loss is that in California, 2.1 per cent. By reason of its great variety of products it stands somewhat apart from the rest of the group. Utah, with its mining and stock-raising, fared worst in savings deposits. The total recession was $330,895,000, with a decrease in depositors of 490,872, greater in number than the population of Arizona. Here again the decrease in demand deposits was greater than in savings deposits.

HAWAII

HAWAII, which two years ago had a very satisfactory rise in savings deposits, this year registers a loss of slightly more than $1,000,000. To offset the decrease in deposits there is a gain of almost 3,000 deposi- (CONTINUED ON PAGE 59)



THE COMPOSITE SECURITY IDEA

An Actuarial Approach to Security

THE composite security is a recent phenomenon. Yet already, according to latest estimates, approximately one million investors own composite securities of the so-called "fixed" trust type.

It is to be wondered whether the significance of the composite security idea has been overlooked amid discussion of specific composite securities.

Distributors Group, Incorporated, owned by a nationwide group of investment houses and banks, is the largest creator and distributor of composite securities in the world today. It offers the following as the sound principles of such securities:

1 No single security is as strong or as safe as a broadly diversified group of equally sound securities.

2 Diversification sufficiently broad to provide fully adequate protection is not merely a matter of numbers but of judicious selection as well.

3 Once selection has been completed some provision must be made for meeting the broader changes in our economic life—but such provisions should not be so flexible as to encourage a temptation to abandon sound policies in the face of temporary crisis.

4 The investor should have actual ownership in the securities which comprise the composite security and full privilege of liquidating his interest in them at any time for any reason.

These are the principles underlying NORTH AMERICAN TRUST SHARES 1955 and 1956, largest of all unit type trusts. The investor who purchases these shares obtains actual equitable ownership in common stocks of 34 great corporations. The market value of all the outstanding common shares of these 34 companies equals approximately half the market value of all the common stocks listed on the New York Stock Exchange. Eliminations from the portfolio may be made at any time but only for long-term investment reasons and solely for the purpose of maintaining the quality of the investment. No substitutions are permitted. The investor knows at all times in which stocks his money is invested. Full details concerning the structure and provisions of NORTH AMERICAN TRUST SHARES 1955 and 1956 are available. Of special interest to bankers is a booklet called "Building a Portfolio." Copies will be sent free on request.

The offering price of NORTH AMERICAN TRUST SHARES is based upon and varies with the actual New York Stock Exchange transaction prices of the underlying stocks during market hours. (Full details of method of calculating offering price are contained in the Offering Circular.)

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Ideas and Opinions

A Time-Saving Digest of Current Business Thought

This is a clearinghouse of items aimed to keep us informed without taking too much of our time

•

ACCOUNT ANALYSIS

INTELLIGENT account analysis furnishes the management of the bank with an idea of where they are heading profitwise. A sound analysis of your bank, from the standpoint of profitable or unprofitable business, and a bold statement of the facts are part of the duties and responsibilities of bank auditors. I believe bankers of the country have been backward for many years in dealing with this question. How foolish we have been to permit 50 per cent or more of the number of our accounts to be unprofitable to the bank!

—**Craig B. Hazelwood.**

•

REAL ESTATE MORTGAGES

THE mortgage banker will find the solution of his present problems and a potent influence for his future success in making it his business to prove that the properties on which loans have been made were good properties, that they deserve repair and rehabilitation where necessary. It is to his best business interest to advocate that owners of property temporarily abandon their efforts to sell real estate and devote their time and necessary money to finding proper uses for the real estate which they own and to adapt such real estate, by proper maintenance and improvement, to such uses.

—**Harry Lee Martin.**

•

FEDERAL BOND ISSUES

THAT when, as now, taxes are so high that they cannot be increased, Congress can borrow to spend without immediately increasing taxes by the amount of the current and following year's interest on the loan and without also greatly increasing the cost of the entire operation, is a fallacy. A number of projects with an aggregate cost of $1,000,000,000, provided taxes for them were immediately available, would cost tax payers $1,800,000,000 if they were financed by an issue of twenty year four per cent bonds.

—**Elliott C. McDougal.**

•

TAX COLLECTIONS

THE way in which our tax-assessing and tax-collecting departments are run is responsible for the loss to the lending and buying public of millions of dollars annually. These departments should be handled from one county office. Deeds should be recorded only after the tax office has noted the change of ownership on its records and inscribed the fact on the deed itself.

—**William H. McNeal.**

•

WASTE MUST GO

NO economic system can survive which will not support a standard of living commensurate with the social enlightenment of its day. Rather, it is our job to weed out of our system those colossal wastes involved in mere money-making without return of goods or services. We must eliminate the usurer whether he be found in high or low places. We must bail the water out of soaked and sinking capital structures. We must call waste by its right name wherever it is found and cast it overboard.

—**W. N. Doak.**

•

GOLD WITHDRAWALS

FOREIGNERS can no longer speak quite so vociferously about our "sterilizing" vast quantities of the world's gold supply—about our adherence to an injurious maldistribution of the yellow metal. When they put us to the test, our answer was "Come and get it." They did, and we survived triumphantly. Let us hope that the three or four European countries which are now so well and amply supplied with gold will seek wide and economically serviceable uses for it.

—**Julius Klein.**

•

WORLD ECONOMICS

ANY attempt to deal with the monetary situation without a satisfactory solution of the commercial problems must sooner or later fail. In the absence of a radical change in the world's commercial policy, I do not see a possibility for a really satisfactory outcome for a world conference on the monetary side.

—**Sir Walter Layton.**

•

DECISION

WE need fewer conferences and more decisions: fewer resolutions and more actions. This is a century of fascism. Within ten years Europe will be completely changed and will be wholly fascist or fascistized.

—**Premier Mussolini.**

M. E. HOLDERNESS STRAUSS

Vice-president, First National Bank in St. Louis; president, Missouri Bankers Association

PUBLIC COOPERATION

The public must be taught to realize that a bank is simply an institution that receives money from the public, its depositors, and loans that money to the public, its borrowers. If the public, through fear, misunderstanding or panic insists upon the bank's repaying all or most depositors within a short period, the only way that the bank can accommodate them is by calling upon the public to repay loans or dispose of its salable assets under pressure. When the public, through fear, suddenly decides to draw out its deposits, it injures the public far more than the bank.

—**M. E. Holderness.**

It's *hard for a* Hungry citizen

to be a Good CITIZEN

THE boy whose stomach is empty cannot be expected to do good work at school. Babies undernourished through another winter may be handicapped by frail bodies through life. The hungry father of a hungry family is hardly the man to seek employment with persistence, or to do well on the job when he gets it.

Before you can save a man's soul it is often necessary to feed his body. You have no right to expect the civic virtues of patience, courage and honesty from starving, freezing men and women. If they preserve a just attitude towards the laws of the city in which they live, it is a miracle.

This winter, as never before, it is the duty of all who are well-clad, well-housed, and well-fed to help the less fortunate. The fact that you gave last year, and the year before, does not lessen your responsibility. The fact that you cannot afford a large contribution must not deter you. The upturn of business with a gradual improvement of economic conditions does not remove the crisis of this moment. Emergency appropriations by the federal government amount to $300,000,000, but they meet only half the increased national needs for human relief.

The rest is up to you!

How will your dollars be used? First of all, they will feed the hungry, and relieve the absolute want of the unemployed.

They will be used, also, to take care of the sick and aged. They will help to maintain hospitals, orphanages and schools. They will make possible clinics and visiting nurses.

The dollars you give are invested in the forces of civilization right in your community!

WELFARE AND RELIEF MOBILIZATION, 1932

The Welfare and relief Mobilization for 1932 is a cooperative national program to reinforce local fund-raising for human welfare and relief needs. No national fund is being raised; each community is making provisions for its own people; each community will have full control of the money it obtains.

Give *through your established welfare and relief organizations, through your community chest, or through your local emergency relief committee.*

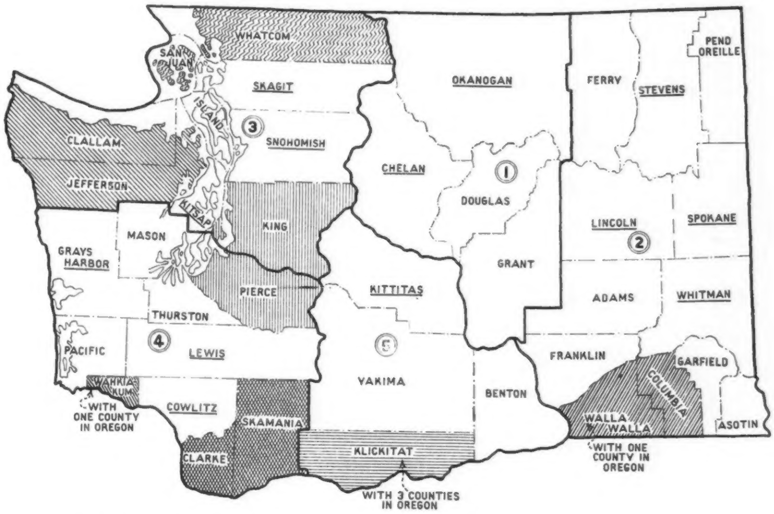
Newton D. Baker, Chairman, National Citizens' Committee

This winter, as never before, support your local Community Campaign

Effective Joint Banking Effort

is being achieved by various states in different ways. From time to time the JOURNAL will describe the progress in particular states

Washington



GROUPS— HEAVY BLACK LINES
SIMILARLY SHADED COUNTIES HAVE A JOINT ORGANIZATION

COUNTY NAMES UNDERLINED INDICATE INDIVIDUAL ORGANIZATIONS

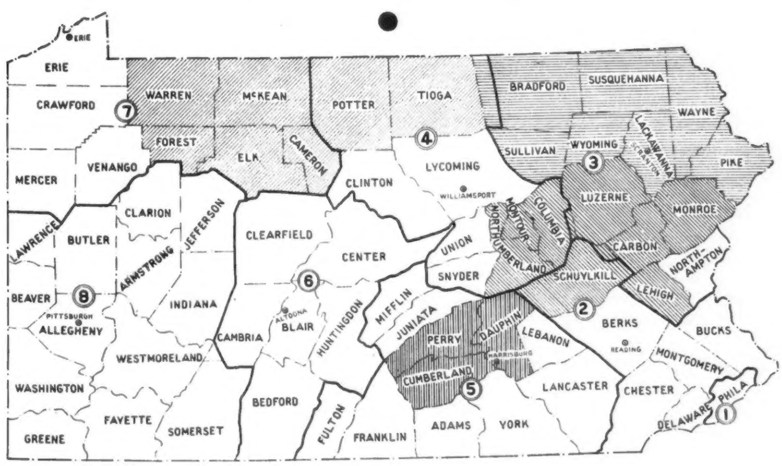
Bankers in the state of Washington are giving much attention to banking legislation, both state and Federal. This attentiveness is not limited to their legislative committee, but is an activity of the entire membership. Other matters studied are banker-farmer cooperation; bank management with special attention to service charges, special bank forms, interest rates and analyses of banks from the standpoint of costs and profits; and public education and confidence building.

The state is divided into five groups, each of which will hold meetings next spring. County associations, about 20, average four yearly meetings each. Certain Washington counties hold joint meetings and in three cases there are joint meetings with neighboring Oregon counties. There is also the Southwest Washington Regional Clearinghouse Association, corresponding to Group 4.

Attendance at the state convention averages about 300, at group meetings 500 and at county meetings about 2,000 in a year.

Officers of the Washington Bankers Association are J. W. Bradley, vice-president of the Old National Bank and Union Trust Company, Spokane, president; Andrew Price, president of the National Bank of Commerce, Seattle, vice-president; J. W. Brislawn, Seattle, secretary; and S. A. Kimbrough, vice-president of the Spokane and Eastern Trust Company, treasurer.

Pennsylvania



LEGEND

GROUPS — HEAVY BLACK LINES

GROUP CENTERS ⊙

NORTH TIER B.A.

UPPER ANTHRACITE B.A.

LOWER ANTHRACITE B.A.

HARRISBURG CLEARING HOUSE ASSOC.

Each of Pennsylvania's eight groups holds an annual meeting. The total attendance by bank officers, directors and employees sometimes reaches 6,500 in a year. Almost all of the state's counties are organized individually or in districts and hold quarterly or semi-annual meetings.

Subjects that have been discussed recently in Pennsylvania bankers' meetings are the work of the county agents in farm extension activities, interest rates paid on savings accounts, various types of service charges, regulations such as suretyship, depository bonds, etc.

Pennsylvania Bankers Association officers are O. Howard Wolfe, cashier of the Philadelphia National Bank, president; Joseph F. Hill, cashier of the National Bank of Chester County and Trust Company, West Chester, vice-president; C. F. Zimmerman, president of the First National Bank, Huntingdon, secretary; and D. C. W. Birmingham, president of the Hazlewood Savings and Trust Company, Pittsburgh, treasurer.

Events and Information

WITHIN THE ASSOCIATION

Report of the Economic Policy Commission

THE report on the "present banking situation" which was presented to the Los Angeles Convention by the Economic Policy Commission of the American Bankers Association has been issued in booklet form. The report deals with a number of timely subjects including banking reform, reconstruction finance, banking non-liquidity and proposals for a unified banking system.

Mid-Continent Trust

THE eighth mid-continent trust conference was held in Milwaukee, Wisconsin, November 17 and 18.

Dr. William A. Ganfield, president of Carroll College, Waukesha, Wisconsin, was the speaker at the banquet. Harry B. Hall, president of the Association of Commerce, Milwaukee, was toastmaster.

Topics discussed at the four morning and afternoon meetings related to the trust man's place in economic leadership, trusts and real estate, contemporary investment problems of trustees, living trusts and extension of trust business.

Attendance represented the 17 states of the conference region: Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, Oklahoma, South Dakota, Texas and Wisconsin.

Presiding over the conference was R. M. Sims, President of the Trust Division, American Bankers Association, and vice-president of the American Trust Company, San Francisco, California.

Eastern Regional Savings

THE annual Eastern Regional Savings Conference, sponsored by the Savings Division, American Bankers Association and comprising the states of New England and the Middle Atlantic section, is scheduled to be held in New York City on January 26 and 27, 1933.

This meeting is attended by bankers interested in the savings business. It touches on broad questions which affect prosperity and, in consequence, savings deposits. Likewise, it concerns matters referring to internal banking policies. The present situation and future outlook of railroad securities and of real estate mortgages, municipal indebtedness, and taxation, and their effect on normal life, are bound to receive attention.

Mr. Henry Bruere, president of the Bowery Savings Bank, New York City, is the member of the Executive Committee, Savings Division, in the New York area. Mr. Wilson G. Wing, president of the Providence Institution for Savings, Providence, Rhode Island, and Mr. C. F. Martin, treasurer of the City Savings Bank, Pittsfield, Massachusetts, represent the New England area; and Mr. Howard Moran, vice-president of the American Security & Trust Company, Washington, D. C., the Middle Atlantic division. The President of the Division is Mr. Gilbert L. Daane, president of the Grand Rapids Savings Bank, Grand Rapids, Michigan.

Bank Officers' Handbook

THE Bank Management Commission of the American Bankers Association announces the publication of a new Bank Management Handbook for officers of banks. This is a reference volume containing information based on experience and not on untested theories. It is arranged for convenient use and should be on every officer's desk.

The volume contains 380 pages, is bound attractively in buckram and is completely indexed. It is divided into 14 sections, each having been prepared by experts experienced in a particular field of bank management and operation.

The subject matter deals with practical problems confronting every banker, such as the following: loan administration policies, profit and loss operations, secondary reserves and security buying, unprofitable practices and the remedy through per item and float charges, account analysis, duties and qualifications of executive bank officers, credit department organization, bank personnel, bank analysis, installation of measured service charges, budgeting of income and expense, accrual accounting, investment policies, bank operating ratios, organization and operation of city and regional clearinghouse associations, credit bureaus, etc.

This handbook is available at the cost of printing and binding—$3.80 postpaid—from the Bank Management Commission.

Golf Winners

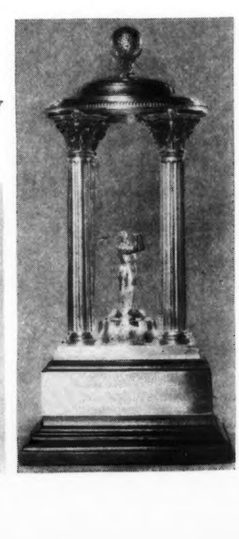
THE golf trophy awards at Los Angeles in October have been announced by Louis H. Moore, chairman of the golf committee. The prizes and the men who won them are as follows:

The Philadelphia Bowl, won by P. S. Belford, cashier of the County National Bank, Santa Barbara, California; The Golfers' Trophy, won by F. E. Prior, assistant cashier of the Citizens National Trust and Savings Bank, Los Angeles, California; and the Ex-Presidents' Trophy, won by Craig B. Hazlewood, vice-president of the First National Bank, Chicago, Illinois.

Golfers' Trophy •

• Ex-Presidents' Trophy

Philadelphia Bowl



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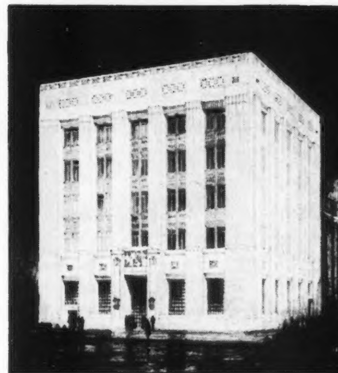
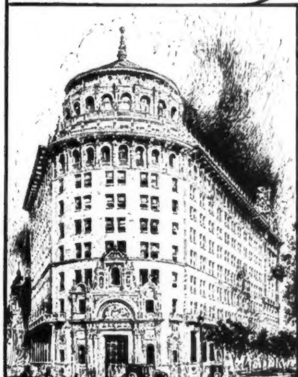
First National Bank of New York
New York City

Your bank, too, can enjoy the same skill and experience in vault manufacture and construction that have made the name of YORK preeminent throughout the world. We will gladly confer with you regarding the size and type of vault your bank requires.



Los Angeles Branch, Federal Reserve Bank of San Francisco

Equitable Trust Co.—now Chase National Bank, New York City



Buenos Aires Branch of the First National Bank of Boston

The First Union Trust and Savings Bank of Chicago

YORK SAFE AND LOCK CO.

• YORK, PENNSYLVANIA •

MANUFACTURERS AND BUILDERS OF THE WORLD'S GREATEST VAULTS

NEW YORK BALTIMORE BOSTON PHILADELPHIA SEATTLE	ST. LOUIS SAN FRANCISCO NEW HAVEN HOUSTON CHICAGO	YORK VAULTS	CLEVELAND WASHINGTON LOS ANGELES PITTSBURGH MONTREAL	HONOLULU PARIS HAVANA TOKYO SHANGHAI

FIRE AND BURGLAR PROOF SAFES AND CHESTS

The Condition of BUSINESS

WAITING for November 8 to come and go played so large a part in the nation's industrial, commercial and financial activities and attitudes during the month ended November 15 that it fogged the picture of the condition of business. It made it hard to discern how much the manifest slackening that occurred in the place of improvement was due to a normal seasonal let-down in activity, and how much to a loss of momentum in basic economic forces of reconstruction.

It is notable that the various conditions of suspended animation or even ebbing vitality, generally reflected in the major business indexes during that part of the period under review that fell prior to November 8, were in several instances replaced by flickers of increased activity in the briefer part that fell subsequent to that date.

POLITICAL FACTORS

TREATING the mechanism of politics itself strictly as a factor in the nation's business, it is doubtless a favorable circumstance that there is now in view the reestablishment of a Governmental organism freed from certain clearly definable causes of inability to deal rationally with essential public problems on their merits.

One cause was the exercise of undue influence in legislative effort by political mavericks, of whatever party, whom the close division of Congress gave at times a balance of power without accountability to the national interest.

Another was the basic partisan antagonism between major arms of the Government that at times put political expediency and destruction of political opponents ahead of public welfare. The noting of this replacement of such chaotic conditions by a politically coherent Governmental machine implies no estimate as to the nature of the legislative and administrative policies it will produce.

As a business factor, the passing of November 8 was obviously confined in its effects to clearing the air of political controversy and setting up this promise of consistency of political motive in the Federal Government, inasmuch as the change of administration that was voted expressed no actually defined mandate for a concrete change in any fundamental national policy.

The matter of some form of abandonment of prohibition is not an exception to this statement since it had previously been virtually agreed upon. In more important matters, therefore, business must still continue to consider the possibilities and probabilities of undisclosed forces emanating from a new Government set up by a process analogous to a peaceful social revolution which felt rather than formulated its dissatisfactions with past conditions and its hopes for the future.

It is doubtless safe to assume, however, that the basic non-radicalism of the American character, the parliamentary force of unhampered public opinion, the responsibilities of power and the ambitions of the new political régime to prolong approval will insure continuity in the major economic and social principles and even policies of the nation.

REACTIONS AND READJUSTMENTS

IT would appear, therefore, that the condition of business would continue to depend mainly on developments and reactions within business itself. While the indexes of economic activity for the month ended the middle of November were inclined to show reactionary tendencies, there were also indications of fundamental readjustments that probably had greater significance in the long view.

Among the former was the course of commodity prices, which, in a standard compilation, had reversed the constructive upward trend it began in the first week of July and by November 4 completed eight weeks of an unbroken, although gentle, decline. However, during the week ending three days after the election the decline was broken by a slight rise in the index number.

It was reasonable to interpret the course of this compilation as indicative of a high degree of price stabilization since the week-to-week fluctuations either up or down have been in narrow fractions. From this point of view it presents an element of fundamental improvement.

The trend of security prices also has been presenting a mixed picture. Stock averages recorded a moderate downward movement until just after the election, when they scored a moderately active upturn. To date a somewhat similar course was evident in the bond averages.

Freight movements as reflected in statistics of carloadings indicated a slackening of trade since October 15, but this recession appeared to be somewhat less than at the corresponding period last year, and to constitute a truly seasonal reaction of a normal character.

In steel, the production figures, with moderate increases, indicated that this basic economic element was probably holding its own. In the depressed figures for automobile production the matter of seasonal model changing was doubtless a factor that continued to make itself felt.

Another phase of current statistics that continued to be branded with a question mark was the persistent

increase in excess, or unemployed, reserves in the hands of the banks. The jobless lending power thus depicted, amounting to about $250,000,000 for the member banks of the Federal Reserve System and capable of supporting credit expansion in a ratio of some ten to one, mirrored the subnormal and stagnant state of industry and commerce.

Whereas it was the style a few months ago to blame the idleness of this vast economic power upon the over-cautious and even uncourageous policies of the bankers, especially where political strategy had use for this particular line of argument either in behalf of the existing order to help excuse it of blame for unfavorable conditions, or against it to help keep alive popular dissatisfaction with things as they were, it has now become generally accepted that the cause is deeper than banking caution. It is apparent that these credit dollars are idle because trade is not moving in sufficient volume.

This is a situation that reveals clearly the essential economic partnership of capital and labor in adversity as well as in prosperity. It exposes the fallacy in any view that seeks to make it appear there is a basic diversity of interest between them.

The War Debts

(CONTINUED FROM PAGE 13)

ciation of the pound sterling Great Britain's scheduled payments for the current fiscal year are increased from about 37,860,000 pounds sterling to 54,518,000 pounds, the effect on the British budget being the same as an increase from $184,000,000 to $264,960,000.

On the other hand there are strong reasons why the United States should not be willing to accept the pleas of its European debtors. Pleading poverty and their inability to meet their engagements, they are yet able to meet enormous expenses for armaments.

Great Britain's armament bill in 1931 was over three times the amount it paid the United States on its debt; France's was over 13 times as much; Italy's over 20 times; Belgium's, over five times,—why be unpleasant about it? Hence, in spite of Europe's claims to the contrary, there is a connection between war debts and expenditures on arms. Hence also the increasing insistence in the United States upon connecting debt settlement and disarmament. It is not without significance that just about the time a new debt conference is ripe Great Britain announces a determination to come to an agreement on disarmament which will be in accord with American wishes.

Coincident with these developments are new blasts from international economists in favor of revision or cancellation; and new demands from American bankers and business men that the issue be faced in a spirit of reality.

Great Britain and France, in their notes asking a reopening of the issue, have requested a conference in which the whole matter may be reviewed and in the meanwhile that the Hoover moratorium of last year be extended. That Congress, in spite of its stand of a year ago, can refuse the latter in view of the request for negotiations seems impossible.

Perhaps the negotiations requested will merge, directly or indirectly, into the international economic conference which is promised for this winter or next spring, and to which both political parties in the United States are pledged although, through the insistence of the United States, intergovernmental debts have been expressly excluded from the agenda of that conference. Out of that conference or some conference, now a certainty, must come some definite results. One by one the really dominant economic questions in international affairs are being brought to issue. Political dodging is becoming useless as well as unpopular.

There is some prospect that in the next few months the world may see the removal of some of the obstacles to business recovery which in the past two years have seemed all but insurmountable.

Editorials

(CONTINUED FROM PAGE 37)

gets, elimination of special privilege, preservation and administration of natural resources in the public interest, elimination of high tariff barriers by international agreement, readjustment of inter-governmental war debts in the spirit of Lausanne, etc. Of course, it might be said that the definition shares with the word itself a certain haziness of meaning but nevertheless it is a start. The dictionary states merely that a liberal is one "possessing or manifesting a free and generous spirit, ready to impart gifts or aid; bestow freely, open handedly, bountifully". This definition is obviously unsatisfactory.

The War Debts

IT should not be held against the American public that it sees no connection between debts and reparations. There is no connection. The debts represent goods purchased while reparations were a fine for mis-conduct. Sir Walter Layton, editor of the "Economist", London, recognized the clear distinction between debts and reparations in a recent editorial describing the difficulty of persuading American taxpayers that it would be to their advantage to cancel or reduce the debts.

The final answer to the debt question is not in either of the party platforms, nor in any utterance of political leaders in the United States or Europe. Disarmament, the tariff, our foreign trade and loans abroad, and the virtual cancellation of reparations are incidental. In European history books it will be called readjustment, while a large section of American public opinion will be inclined to remember it by another word. In any case the benefit to the world of having the problem settled in some way would be so great that it makes little difference what term is applied to the fact.

MAPS of national wealth and banking statistics, commerce, industry and other economic subjects, are among the 166 large page plates in the "Atlas of the Historical Geography of the United States", by Charles O. Paullin, edited by John K. Wright. Computations are by states and per capita and represent important periods in the national history down to the present time. The book is the joint publication of the Carnegie Institution of Washington and the American Geographical Society of New York.

The 145-page text takes up, among other subjects, "Lands", "Population", "Political Parties and Opinions", "Industries and Transportation", "National Wealth" and "Foreign Commerce". A number of maps are devoted to one subject—for example, 20 to national wealth and banks, 64 to agricultural statistics, 20 to foreign commerce and 20 to manufacturing.

While the map data are necessarily only graphic and not detailed, they are supplemented by condensed text discussion.

Events That Move Bonds

(CONTINUED FROM PAGE 17)

ket student. They have, in other words, been extraneous in their origins and imponderable in their implications.

During the year to date there have been five distinct upswings in the market for corporate obligations and four periods of receding prices. It is not a little illuminating, in view of the foregoing observations, to review the events of this period and to note the forces creating these striking movements.

The bond market had made its low of 1931 on December 18, and the beginning of the new year found prices straggling forward. Impetus for this rise came from three sources: the announcement of plans for setting up the Reconstruction Finance Corporation, negotiations in progress between the railroads and organized labor for wage reductions, and the adoption of the first phase of its easy money program by the Federal Reserve. By the time the Reconstruction Finance Corporation actually became law, on January 22, its operations had been thoroughly discounted, so there is nothing in the bond chart to make this date stand out. More important, however, is the fact that by this time another influence, of an adverse nature, was at work.

THE DOLLAR SCARE

EUROPE, about this time, suffered its second wave of apprehension concerning the possibility of inflation in the United States, and began to draw its earmarked gold home. For a time this "scare" was the outstanding factor in the markets, but its potency, so far as the domestic markets were concerned, diminished sharply with the passage of the Glass-Steagall bill, whose terms were announced by President Hoover in a public statement issued February 11. The Glass-Steagall bill did not banish the fears of Europeans; indeed, if anything, it strengthened the conviction that had taken root there that we were headed for abandonment of the gold standard. At home, however, the financial community was quick to comprehend that this measure corrected a vital and unforeseen weakness in our currency system which might have led us unwittingly to just such a situation as Europe was predicting for us. It was realized that the bill removed the pressure on member banks to borrow at the Federal Reserve to make up their deficiencies due to gold losses; and that this, in turn, made it possible for the banks to relieve

their customers and correspondents of the pressure which they were forced to put upon the latter in order to maintain their own liquidity.

Partly, no doubt, to reassure Europe as to the strength of our banking and currency position, the Federal Reserve Bank of New York took the almost unprecedented step, on February 26, of reducing its rediscount rate in the midst of a drain on the gold holdings of this country. The move brought the rate down from 3½ to 3 per cent. The outflow of metal, which had begun the second week in January, continued unbroken through that month, February, and the first few days of March.

One commentator on finance has referred to the four months which began on March 12 as the Chapter of the Washington Plague; certainly, taken by and large, it was as perfect an example as we have yet witnessed of the havoc that can be wrought on public confidence by a Congress that is playing politics with legislation touching upon the most vital aspects of the country's financial well being.

THE TAX BILL

IT IS only necessary to refer to some of the highlights of this unfortunate chapter to recall its chilling effect, not only upon the markets, but on business and sentiment generally. On March 8 it was reported that opposition to the new tax measures sponsored by the House Ways and Means Committee was "rampant". Fears on this point were realized within ten days, when a coalition of rebellious Democrats and Republicans tore to pieces the carefully prepared revenue bill of the committee. Throwing over the advice of its leaders, it embarked upon a program of sabotage, commencing with a series of amendments aimed at the conscription of wealth. For two months the issue of taxation was a political football, and at times it appeared as though the question of balancing the budget would not be settled at all. After two months of debate and acrimony in Congress and of uncertainty bordering on despair throughout the country, a revenue bill was finally signed on June 6. On paper it effected a virtual balance against expenditures, but how utterly unrealistic it was in this respect has recently become all too obvious. The deficit is mounting at the current time at a rate which suggests that revenues will fall far short for the present fiscal year.

Adding to the general state of unsettlement throughout the nation during these months were the constant threat of the enactment of a bonus bill, involv-

ing the issuance of either securities of fiat money in the amount of $2,000,000,000; the persistent efforts of Senator Glass to obtain the passage of his comprehensive measure for a revision of the banking laws, with its many deflationary features; the sensation-seeking investigation into the security markets; agitation for enactment of the Goldsborough "reflation" bill; passage of the World War Widows and Orphans bill, to cost $10,000,000 the first year and $100,000,000 annually from the fifth year on; and the almost complete emasculation of the economy program.

To its credit, it must be said for Congress that it did not pass much unsound legislation, while it did vote numerous constructive measures.

The sustained rise in the bond market between July 5 and August 21 was primarily a result of this new relaxation—the freeing of the financial community from the grip of fear in which it had been held since mid-March. However, in addition there were the facts of the reparation settlement at Lausanne, the announcement of the British conversion loan and its ultimate success, expansion of the Reconstruction Finance Corporation's activities and the increase in its funds to $3,800,000,000, and the passage of the Wagner Relief bill and the Home Loan Bill.

If politics dominated the major downswing of the year in the bond market, then it has played a considerable part also in the tapering off from the August high that has been witnessed in recent weeks.

BONDS IN 1933

WILL the bond market in 1933 revert to its old status, whereunder one may safely predict the course of prices in the light of probable money conditions and the probable trend of corporation earnings over the twelve months?

If we were sure that it would, the task of forecasting its movements would be comparatively simple. For every bit of evidence that we have points to continued cheap money, on the one hand, and to an improvement in corporate earning power, on the other. Yet, to think of the bond market in such simple terms is to ignore the uncertainties of a new Congress; it is to overlook such tremendous "imponderables" as a change of administration, the proposed International Economic Conference, American action on the European debts, disarmament, and modification of the prohibition law.

No, it is too early yet to think of the bond market in its normal terms. But on the whole, 1933 holds hopeful, rather than dispiriting, possibilities.

Correspondence

"Advice to the Officials"

THE JOURNAL considers this bank clerk's first letter as "worth publishing", and publishes it. Among other things, the educational opportunities afforded by the American Institute of Banking come to mind—and how bank officers can extend those opportunities if they will.

To the JOURNAL:

You can probably tell from this letter that I have only been working in a bank for a few years. But I am very much interested in my work and therefore I am going to see if I can write anything about banking that is worth publishing. I won't be disappointed if this does not appear in print but I shall try again.

There is one side of banking of which we hear comparatively little, and that is the side of the bank clerk—the man who is responsible for all the minor, but exceedingly important, details of the bank. Whenever we pick up a bank magazine, we find that much is said about stocks, bonds, credits, management, and all items of particular interest to bank officers. We often find stories of how a successful banker becomes that way, and his rules for others to follow in his footsteps. That is all well and good, but we must stop and remember that there are two sides to every question, and there is another side to this story. If you go into any of the larger banks you will see a large number of individuals working side by side, taking care of the minor details. They also have an interest in the building of that bank into an even stronger and more serviceable institution.

So, let us consider the lowly bank clerk. What are his ideals? How far does he want to go? What does he expect from his employer? Many similar questions come to my mind for I am one of those "clerks".

The young man, in most cases still just a boy, enters banking as a collector. The chances of his being a success depend completely upon his own initiative. We are always hearing that if we are to get any place, we will require a "pull". Right here I'd like to state that several bankers with whom I have become acquainted have attained high positions purely through their own efforts. If any bank is making a successful fight against that something called "depression", you can depend upon the fact that its officers are fully capable of attending to their business and are not there just because they had a "pull".

Now to get back to our collector. His first start in the bank will determine largely any possibilities he may have to become a banker. He may just be working to pass the time away or he may have some ambitions. In this position of, as we sometimes jokingly call it, official outside representative, the ambitious one can build a strong foundation of knowledge that will be invaluable to him as he goes higher in his efforts to succeed. The manner in which he performs his work in his first position will characterize his later work. If he has that ambition to be president of his bank, he will learn something new at every opportunity afforded him. No matter how far he may advance, there is always plenty that he can learn.

Whenever an employee in a bank is placed in a little better position, the others say he had a "break". If a person wants to make a break in a stone wall, he must first use considerable force. The one who gets these so-called breaks is the one who is preparing himself for a better position. We can easily learn to do the job we have, do it quickly and then go home. But the clerk who learns his own task and then in his spare time gets busy and tries to learn something of the job just ahead of him, is the one who will never stop getting these "breaks". Very often it will be found that it is hard to get the one ahead of you to give any information. He is afraid of losing his own position. That kind of a fellow usually keeps his same old job until he is too feeble to work any more.

This probably sounds like baby talk to some of the bank officials, but they must remember that one of the rules of success is to do the little things well. If they have a capable working force, all the affairs of the bank will function smoothly.

I will admit, however, that if a clerk is working in a bank where the official in charge of the clerks is so blind that he can't see over the top of his desk, that clerk might as well pack up his grip and leave. The beginner is going to make

plenty of mistakes and he is going to need help and encouragement. We can all read books and get very good material from them, but actual experience is our best teacher. The officers have had experience, and a few words of advice and encouragement from them will work wonders. If they can't see that a clerk is trying his hardest to learn and to make something of himself, then he might as well be working in a coal mine.

So, as just a bank clerk, I am giving advice to the officials. Watch the bank clerk who is always on his toes and who wants to learn. Give him opportunities. Show him that you are interested in his efforts. Give him the chance to advance and you will have a man who is very valuable to your institution.

L. R. STROUD.

First State Bank,
St. Joseph, Mo.

A Postscript from Germany

ROBERT Crozier Long, an English economist residing in Berlin, contributed an article to the JOURNAL for November on "Germany's Dollar Debts" and the von Papen Plan to aid German industries. More recently he wrote the following letter on the improved conditions in that country. Both were pre-election.

To the JOURNAL:

The subsidies plan in Germany, without any change, is already in operation (from October 1). The business situation, however, began to improve before the plan came into operation; and unemployment is today less than it was three months ago, although normally—owing to discharges from the seasonal industries—unemployment always rises after the late summer.

There is every sign of a general German trade recovery, and there seems to be no reason why American bank and bondholder creditors should make any concessions. There is always a possibility that the transfer in dollars of the debt service may have to be curtailed; but even here things look better, as the Reichbank's reserves, which fell heavily during the first half of the year, have of late been stable and have even increased a little. The bond-debtor companies themselves declare that they do not want any interest—much less, capital reductions—and are willing and able to meet their obligations; and this is the view of the Federation of German Industries, the only exceptions being companies, like Karstadt, which are individually insolvent.

ROBERT CROZIER LONG.

Friedenau, Berlin, Germany.

The Check Tax Again

THE JOURNAL survey and article on the check tax, which appeared in September, created interest. Comments were published on this page in November and the letter that follows gives a reaction from the insurance field.

To the JOURNAL:

Your article, "The Check Tax," in the September issue interests me, especially the comment upon that phase imposing upon business establishments the function of tax collectors without compensation therefor. Over an extended period of years insurance companies have been legally obliged to do so. And more recently, retailers of petroleum products. I opine that it is long since business should strenuously object to legislation that abuses it.

It seems that legislators are entirely unreasonable when they enact some laws. At least, it is difficult to comprehend their motives when they legislate business establishments out of existence without the owners being reimbursed, and parties into being public employees without receiving compensation for their services.

LISZT LENZEN,
Agent.

The Fidelity and Casualty Company of New York.

A Worthy Example

"THAT they consider themselves entirely worthy and an integral part of American banking . . ."—but read Mr. Zimmerman's letter itself.

To the JOURNAL:

Out of my correspondence this morning, I am sending to you the enclosed letter from the Biglerville National Bank, Biglerville, Pennsylvania, for the sake of having you see their letterhead.

I have a very clear mental picture of their banking room in a small town of only 600 population in the heart of the Adams County agricultural region. These folks have an intense interest and pride in their bank and in the preservation of their historic position regardless of the effect of any and all legislation in contemplation either by the Federal Government or by the State of Pennsylvania. That they consider themselves entirely worthy and an integral part of American banking, is indicated in the fact that they carry on their letterhead as follows:

MEMBER OF
AMERICAN BANKERS ASSOCIATION
PENNSYLVANIA BANKERS ASSOCIATION
ADAMS COUNTY BANKERS ASSOCIATION

the names of the various bankers associations with which they have identified themselves.

C. F. ZIMMERMAN.

Secretary, Pennsylvania Bankers Association.
President, First National Bank, Huntingdon, Pa.

On C/D's

THIS Michigan banker is interested in a discussion of certificates of deposits from the small bank's point of view. Suggestions from readers are always welcome.

To the JOURNAL:

I am personally much interested in the notion of issuing a certificate of deposit, interest bearing on a basis with regular savings accounts, non-negotiable and with definite maturity to replace the present type of demand C/D, but I do not seem to be able to enthuse local bankers in the idea.

The idea may be worth discussing at some time with the thought of eliminating the hazard to small banks of the C/D that comes in from foreign sources at times when it is most inconvenient to meet large withdrawals such as the last ten months have seen.

EDWARD D. DIMNENT.

Chairman of the Board, First State Bank,
Holland, Michigan.

Expressive

AND with appreciation, the following:

To the JOURNAL:

I want to take this opportunity to express the opinion that you are producing a very excellent magazine. It is both attractive and readable.

DAVID M. AUCH.

Secretary, Ohio Bankers Association.

To the JOURNAL:

This department has read with great interest the article on "Depression Experience in the Small Loan Field" which appeared in the JOURNAL for November.

I want to congratulate you on the initiative of the JOURNAL in doing this piece of research and assure you of the interest of many of its readers in this recent development within the commercial banking business.

ROLF NUGENT.

Department of Remedial Loans,
Russell Sage Foundation,
130 East 22nd Street, New York.

Banking Competition

(CONTINUED FROM PAGE 12)

instances where government invading private business has ever retreated from the field. If none of these 10,000 banks had failed, would Government ever have ventured into the banking business on such a stupendous scale?

A commendable spirit of cooperation induced the two large banking groups in Detroit to subscribe 85 per cent of the local quota of the National Credit Corporation, from which none of their member banks derived any benefit through loans. Together with other clearinghouse banks, they contributed to the safeguarding of $68,000,000 of depositors' money in competitor banks.

The spirit of competition should stimulate bankers to devise a newer and sounder form of banking, as in the great northwest where unit banks and members of the group banking organizations have stood together as "safety zones" in the midst of a great agricultural empire during a period when prices of farm products reached historic lows.

Weak banks are a menace to the others. The liquidation of more than $4,000,000,000 of assets of closed banks has been felt in the bond portfolios and loan pouches of every bank and every insurance company in the land.

Certainly, it should be no part of competition for anyone representing one type of banking to impugn the motives of someone representing a different type, or to intimate by unfounded innuendos that one type of banking is contrary to the best interests of the whole. This sort of thing cannot alter the record a whit or jot. Rather should every banker in the United States congratulate himself that the spirit of competition, the spirit of enterprise, the spirit of seeking, and designing, and erecting, and maintaining a sounder banking structure, has reverted to the benefit of the entire banking fraternity, including group banks and unit banks; and to the benefit of the people of the United States.

Savings Deposits

(CONTINUED FROM PAGE 43)

tors. The decline in the price of Hawaii's great crop, pineapples, is possibly a factor in this decline in the volume of savings deposits. To the $7,101,000 decline in total individual deposits, savings contributed only $1,061,000; the rest in commercial banking.

WHAT is the conclusion of the matter? Are savings in banks, which indicate in normal times the degree to which banks' customers are acquiring knowledge of the meaning and use of money and of money management, to be the plaything of economic chance, unrelieved to any considerable degree by action of political government? Are the spectres of old age, disease and dependency, which were being driven farther and farther into the background by accumulated savings, to be allowed easy return? The question is entitled to real consideration.

Drastic as has been the recession in savings and in savings depositors during the past year, following a year in which losses in some sections of the United States escaped attention because they were about overbalanced by gains in others, there is hope that a solution of some of the problems which now vex the world will restore industry, agriculture, trade and commerce to a more profitable basis. Savings are yet $33 greater per inhabitant than ten years ago, and $106 greater than in 1912.

Cooperation between Banking and Business

(CONTINUED FROM PAGE 18)

conclusions, the best methods and most orderly means. This is no more than the engineer does in accommodating his own highly specialized knowledge of basic principles and natural laws to the desires of his principals and to the external forces of physical environment, yet always controlling matters in the end in such a way that an unsound structure is prevented, that natural forces are set to work for the common good rather than thwarted, and that the whole desirable objective is attained in a planned, orderly process which accommodates itself to other processes going on around it, creating a minimum of waste and destruction and a maximum of enhanced value and usefulness.

A THREE-POINT OUTLOOK

TO sum up in terms of the banker's function, then, the new way of thinking about our status and our operations calls upon us first to seek always, like the engineer, a clear conception of the ultimate objective and its effects; second, to think through carefully every step of the way which we must traverse in getting there, including the collateral effects of each step; third, to take advantage of natural forces by persuading men to follow through these processes with us patiently for their own and the community's ultimate advantage, rather than to balk and pursue other courses for immediate profit or simply for the sake of speed—in short, to learn how to use money which is of no value, human or otherwise, in itself, and to build scientifically and solidly for a more stable, more enduring, more satisfying human society.

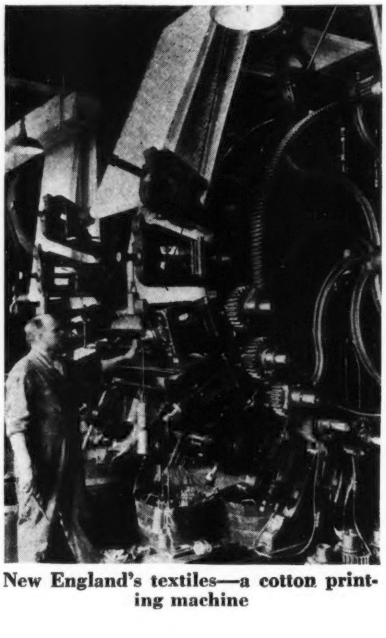
It is a much discussed question today as to whether our money and credit system is successful or adequate to control the functioning of our economic machine, the price level, the supply and demand situation. Some of our ablest economists feel that this system as at present constituted is not adequate, and that other devices or methods must be invented or developed. For us as bankers, this is a two-fold challenge either to adjust our system that new devices will not be necessary or, like good engineers, to be in the vanguard when the new devices are proposed, to lead in their design and adaptation, and to make sure that they are economically sound as judged by the long view.

All of this which bankers must do in the future calls for the recognition of cooperation as a tool, a method of procedure, a piece of technique. As it happens, the characteristics of this tool and this technique are not an entire mystery to us. Many banks have practiced it much in the past. We have only to develop it and make its practice universal.

THE NEW ENGLAND COUNCIL

AS a matter of fact, cooperation falls into two divisions—cooperation of the individual bank with individual business men and clients, and cooperation of bankers as a group with all other business or with business groups. The bank with which I am connected has had a long and interesting history of cooperation with individual businesses, with the long view objective. Some of our most satisfying accomplishments, viewed from every angle, have been in connection with helping the individual business to adjust itself to its changing economic environment in such a way as to be profitable and socially useful.

It so happens, too, that this bank has been associated closely with an outstanding example of cooperation with other business as a group. The New England Council, the organization to which I refer, is unique. I use the word "unique" advisedly for, though efforts have been made in other parts of the country to model business development organizations after our New England Council, I think it is true that none is yet so thoroughly organized and integrated, or so usefully functioning as the original New England prototype.



New England's textiles—a cotton printing machine

In the New England Council agriculture, industry, commerce, and the recreational interests come together in a common forum and common medium of expression. Discussion and solution of economic problems on a regional basis with full regard to the interacting interests and relationships of different economic groups and business interests constitute the daily work of this extremely useful organization. Hundreds of individual bankers hold membership in the Council, and a goodly proportion of the Council's directors hold banking directorates or other bank affiliations.

BANKERS' COMMITTEE, A LINK

ASIDE from this, however, the Council serves as a piece of machinery, a tool, to bring about organized cooperation betwen bankers as such and other business groups. The medium for this organized cooperation is the bankers' committee, of which Walter S. Bucklin, president of the National Shawmut Bank of Boston, is chairman. This committee, composed of one leading banker from each of the six New England states, officially represents the banking interests in conference and contacts with other groups. Besides Chairman Bucklin, other members of this committee are: Norwin S. Bean, president of the Manchester National Bank, Manchester, New Hampshire; John B. Byrne, vice-president of the Hartford-Connecticut Trust Company, Hartford, Connecticut; Henry W. Cushman, president of the Merrill Trust Company, Bangor, Maine; Frederic M. Jones, chairman of the board, Third National Bank and Trust Company, Springfield, Massachusetts; Thomas L. Pierce, president of the Providence National Bank, Providence, Rhode Island; and Levi P. Smith, vice-president of the Burlington Savings Bank, Burlington, Vermont.

Some time ago the Council's committee performed a useful cooperative service the effects of which are still felt. Industry in New England expressed through the Council the question as to whether New England banks were doing as much to promote industrial development as were banks in other parts of the country. New England bankers, through this committee, organized and financed an independent, unbiased study of the function of banks in New England and elsewhere in industrial de-

velopment. The report, published by the Council and distributed to all bankers in New England, proved extremely useful. The Council was not long in receiving the testimony of many bankers that they found numerous suggestions in the report which they immediately put into effect in their own institutions. The results, better banking service and greater stimulus and assistance to industry, were possible only through the type of cooperation that I have discussed, in this case made easy and feasible by this unique organization, the Council.

NEW ENGLAND CONFERENCE

FROM the point of view of bankers, the most important product of cooperation here in New England has been the annual New England Bank Management Conference, the third annual session of which was held under auspices of the bankers' committee of the New England Council in Boston on October 21, with Mr. Bucklin presiding. Of last year's Bank Management Conference, Mr. Bucklin has said:

"If everyone of our institutions could perform each unit of its work on the basis of the best policy or system to be found among all our New England banks, then we would indeed have wonderfully managed banks. Every idea and every bit of practical help that we can get from other New England banks bring each of us just so much nearer getting the maximum profit and the maximum protection from our bank management. Success in banking depends upon management and management in turn depends upon strict adherence to sound policies plus mutual help and cooperation. Through this conference, New England bankers are given the opportunity of both contributing to and gaining from the presentation and discussion of their mutual problems."

In the banking and industrial committees now functioning in the several Reserve Districts we have a practical example of machinery set up to facilitate cooperation between bankers and industry. While owing their origin to emergency circumstances, these committees nevertheless find a prototype in the bankers' committee of the New England Council, which originated back in 1926 shortly after the organization of the Council. It is my belief that organized cooperation between bankers as such and other economic groups must in the future serve intensely practical and useful purposes, and that machinery to facilitate such cooperation must exist. Whether the present committees will assume permanence and enlarge their functions as normal conditions return is a question, but whether they do or not, I believe that cooperative activity must play a larger and larger part in our economic development.

Today there is no more important field for cooperation between bankers and other interests than in the matter of Governmental economy. We are gradually gaining public realization of the debilitating effect of the tremendous tax burden which our industry and commerce are carrying. It is the duty of every banker to promote the development of sound public opinion on the question of Governmental economy. It is particularly the banker's duty to cooperate understandingly with local communities to the end that costs of local government are reduced, inefficiencies and wastes are eliminated, the tax burden reduced, and the remaining irreducible minimum equitably distributed. There have been many instances in recent months of constructive service by bankers to local communities in this respect.

Let me reiterate the hope that the cooperation which we must have in the future will be cooperation based upon basically sound economic considerations—upon the long view, upon the engineering method. On that alone will sound social and business progress rest.

The Career of Gold and Silver Since 1817

(CONTINUED FROM PAGE 32)

1878 conference adjourned without promoting bi-metallism as advocated by the United States and Italy. On the other hand, it should be remarked, only the Belgian and Scandinavian delegates considered gold as a general standard either desirable or possible.

By 1879 conditions were such that France sent out feelers regarding another conference. In 1881, the United States and France jointly issued invitations for a conference looking to the establishment of international bi-metallism. This conference was strongly bimetallist in make-up, but nothing tangible resulted. The world was watching the Bland-Allison purchases, meanwhile hoping that France and the United States by themselves would form an international bi-metallic union.

In 1885 the existence of the Latin Monetary Union was imperilled because of the uncertainty regarding the redemption of silver coins issued by member countries. This was solved temporarily by a new treaty. In this country the question had also become acute, President Cleveland demanding suspension of the Bland Act. That same year the United States informed European governments of our interest in an international monetary agreement. A commission was sent abroad for that purpose in 1885, and another early in 1887.

In 1889, in connection with the Exposition of Paris, the French government organized a conference on money. The United States was not represented and the conference lasted only two days, accomplishing nothing other than to agitate the question. In 1891, the United States Treasury began again to feel out European sentiment and finally a conference was arranged, to be held at Brussels in 1892.

The Brussels conference lasted a month, considered many plans for increasing the monetary use of silver, debated the question of bi-metallism, and adjourned without taking a single vote. It never reassembled. The events which followed that conference in the United States are generally known. The increased purchases of silver, initiated with the Sherman Act of 1890, were brought to an end in 1893, and in 1896 the question was definitely settled at the polls. One by one, new adherents to the gold standard appeared: Austria, Costa Rica, Russia, Japan and British India. International efforts to retain silver were discontinued, and with the discovery of gold in Alaska, a chapter of monetary history came to an end.

Accrual Accounting

(CONTINUED FROM PAGE 30)

expense accounts do not have direct contact with cash transactions, unless certain special sources of earnings and expenses are on a non-accrual basis. The actual income receipts and expense disbursements go to liquidate the accounts through which the earnings and expense accounts were built up. In the case of expenses, actual payments of expense items are charged to the reserve accounts, and tend to liquidate those reserves which were shifted previously from the expense accounts (from Net Earnings, in effect) as the expenses accrued. And in the case of earnings, the actual cash receipts go to replenish the accounts from which the earnings accounts were built, or add to the store of unearned receipts from which earnings are drawn as earned.

Therein lies the secret of the difficulty encountered by tellers and officers who have occasion to make out slips for the cash entries. *The accrual accounts are named to indicate their values as part of the Statement, and seemingly do not fit the cash entries made to them. Cash entries are not made to*

earnings and expense accounts, but are used to liquidate the intermedial accounts, 3, 4 and 5 in the Outline.

As stated, the Daily Shift Sheet is the heart of the system, the means of controlling the flow of accruals. Usually the Shift Sheet is assisted by detail sheets or books—the Loan Interest Accrual Book, and the Bond Interest Accrual and Amortization of Premium Book, being the two most generally used detail forms. However, these supplementary forms can be eliminated in small banks by an enlargement of the Shift Sheet itself. They serve merely as convenient places to segregate loans and bonds by rates, and to compute and combine the daily interest earnings for all rates; likewise to compute daily amortization of premiums paid for bonds, or other special reserve set-ups.

AMORTIZING BOND PREMIUMS

A WORD might be said here about the method of amortizing premiums paid for bonds. Whereas under the cash system such amortization reserves are often set up as interest on the bonds is received, it is accomplished under the accrual system as interest is earned; that is, it is deducted from the shift into "Interest Earned". A list of bonds which were purchased at a premium is maintained, and the premium paid for each bond is divided by the number of days to maturity. These daily amortizations are grouped according to the type of bond, and each total is deducted from the income shift for that classification. The cash entries, of course, tend to liquidate the "Reserved for Premium Amortization" account. Such entries occur whenever the bond accounts are reduced by all or part of any premium —as when a bond matures, is sold before maturity or is marked down. But the amount charged to the amortized premium reserve should never exceed the actual reserve set up on that particular bond; nor should the shift to the reserve, for any one bond, be continued beyond maturity, whether or not the bond is collected. All this detail, of course, cannot be considered accrual system detail because it is inherited, only slightly altered, from the cash system. If, under the cash accounting, the bank charged off premiums on the day of purchase, it can do so under the accrual accounting, eliminating the "Reserved for Premium Amortization" account. However, as the premium was regarded, at the time of purchase, simply as a reduction of yield, it is logical to charge it off out of yield. Other special reserves, if any, are handled in like manner.

So far we have encountered the Accrual Accounts in the General Ledger, the Daily Shift Sheet and the assistants to the Shift Sheet.

Now comes the Accrual Book, which on first sight seems to require a needless repetition of work already done on the Shift Sheet and in the General Ledger. The Accrual Book is usually a loose-leaf book with one sheet for each source of income or expense. The sheets have ten-column rulings—one column for the balance of principal; one (on the bond sheets) for the balance of amortized premium reserve; four devoted to one accrual account (debits, credits, debit balance, credit balance); and four devoted to the other accrual account. There are always two accrual accounts in contact with each "source". The accrual accounts in the General Ledger and in the Accrual Book differ in this respect: in the General Ledger there is one balance for each accrual account, while in the Accrual Book there are as many minor balances as there are sources of that accrual. Thus, "Interest Earned but Not Collected" and "Interest Earned" minor balances would be found on Accrual Book sheets headed: "Time Loans", "U. S. Bonds", "State, County and Municipal Bonds", "Railroad, Corporation and Miscellaneous Bonds" and "Due from Banks". And a recapitulation of the minor balances on those

sheets should agree with the major balances in the General Ledger. Incidentally, there are breakdown sheets in the General Ledger for the Uncollected Earnings accounts and for the Reserved for Interest account; but daily shifts are not posted thereon, so the General Ledger breakdowns are purely records of cash receipts and disbursements.

The Accrual Book, however, being a meeting point of "daily accrual shifts" and "cash entries" as well as a breakdown into source divisions, is an invaluable record. In it the following information is available at all times:

the accrual and the reserve for each source of interest expense;

the accrual and the reserve for each source of other expense;

the earnings and the unearned receipts on discounted loans;

the earnings and the uncollected earnings on time loans;

the earnings, the uncollected earnings, and the amortized premium reserve on each type of bond or investment;

the earnings and the uncollected earnings on Due from Banks, on Exchange and on miscellaneous sources.

This information is essential. It shows whether actuals are running true to accruals. It facilitates the monthly adjustment on certain accruals. And its uncollected earnings and unearned receipts balances are periodically checked against "inventories".

Thus the entire accrual set-up consists of three main parts:

I. The accrual accounts in the General Ledger;

II. The Daily Shift Sheet, assisted by

the Loan Interest Accrual Book, and
the Bond Interest Accrual and Amortization of Premium Book;

III. The Accrual Book.

"INVENTORIES"

AN INVENTORY is an item-by-item computation, from the loan and investment files, of the unearned receipts and uncollected earnings. Such an inventory is made, of course, upon the installation of an accrual system—to set up the Uncollected Earnings accounts and the Discount Received, unearned account. Furthermore, it must be made periodically, usually quarterly, to check the balances of those accounts. Any disparity means one of three things—the correct rate of accrual has not been used, the correct rate has not been received from the loans and investments, or receipts have been diverted from their proper channels. With the difficulty found, the cure is suggested.

Some banks run a day behind in their accruals to avoid delay in making up the daily Statement. Others, while not exactly a day behind in amount, are a day behind in the *rate* of shift, for the same reason. This means extra complications when adjustments are to be made. It is highly advisable to keep the rate and the shift up to date. If the General Ledger is posted by hand, or other circumstances slow up the posting, the Statement can be made up in advance with the aid of a rough working sheet comparable to the old "Journal Sheet". Or the General Ledger can be posted and the Statement made up, with the balances of the accrual accounts left blank to be filled in later, after there has been time to compute and post the shifts. This is feasible because the shifts are entirely between accrual accounts, and balance out. If the General Ledger is machine posted, it is usually possible to get the Statement out fairly early in the morning by posting the Ledger in the evening and the shifts in the morning, then making up the Statement, and letting the posting of the Accrual Book go until later in the day.

A definite routine facilitates operation, and suggested methods are given on page 30 accompanying this article. A well-kept system is a source of great satisfaction, safety and profit.

Are the Farmers Leading This Country Out of the Depression?

(CONTINUED FROM PAGE 20)

frozen out—and some, at least, of their farms will be taken over by men who can make them pay. Some of the farms which are not and cannot be prosperous will lie fallow, or else will be turned over to crops which can be made to pay—perhaps chickens or goats.

And when the farms are thus heartlessly purged of their less competent occupants, the farm situation will be just so much better than it has been. Mind you, I am not saying that this is pleasant to watch. It is so unpleasant, in fact, that most country bankers, ourselves among them, keep postponing the evil day and hoping against hope that the debtor will work himself out of his troubles. A few of them make it, but most of those who get into serious trouble do not work out of it. Enough of them do, though, to maintain our childlike faith in Santa Claus.

DIVERSIFYING

IT ALL gets back to this, that if the farmer wants to raise nothing but cash crops, he is headed for trouble. The farmer who is willing to do the extra work required by diversifying, who is not above raising his own family's requirements in garden truck, who raises others of what the economists love to call "subsistence crops," and who thus supplements the easier cash crops—this farmer can get by.

WORKING HARDER

THE people in our neighborhood are doing exactly this. So, I am convinced from observation and interchange of experience with bankers elsewhere, are most of the farmers of the United States. They are working harder—as is every man who is making a success in any line of endeavor in these times—and using greater ingenuity and initiative, what we call in the country git-up-and-go.

REDUCING EXPENSES

THEY are, moreover, cutting down on expenses. They are finding out that they can get along without many of the expensive things that they used to buy—and while this does not help industrial employment, it is a necessary step in the readjustment which will eventually restore the farm buying power of the nation. These purchases made life more pleasant, but also more complicated. Now the farm folks are getting back to first principles and are balancing their budgets.

The farmer can do this much more easily than the city man. He is nearer to the soil, the source of all wealth and goods. He can produce his own goods when outside sources fail. And this is why I say that, despite their obvious distress, the farmers are leading this country out of the slough of depression.

BALANCING BUDGETS

DESPITE what look like insuperable obstacles, the farmers are balancing their budgets—not all of them, but enough to show that it can be done. They are paying their taxes. They are assuring themselves a living. Believe it or not, many of our farmers who raise 18-cent corn and 10-cent oats are by their ingenuity and thrift putting a little something by against a day which they pessimistically think might be even rainier than the present.

These farmers, in other words, have restored their own economic equilibriums. And when the rest of the country does as much we shall see it going forward once more on its long—except temporarily—resistless march toward greater prosperity for all of its population.

Voluntary Action—Georgia

(CONTINUED FROM PAGE 26)

market levels, between $15,000,000 and $20,000,000 will be kept at home in 1932.

In efforts to further the marketing plan and to bring to a realization the possibility of keeping this vast amount of money in Georgia, a number of interests have united in a state-wide campaign. These include the Georgia Bankers Association, the State College of Agriculture, the Georgia Federation of Women's Clubs, civic organizations, chambers of commerce, the American Legion, the Georgia Manufacturers Association, and several other influential agencies.

A series of 15 zone meetings, beginning July 27 and ending August 25, was called by the bankers association and all these forces participated. Existing sources of supply were named; provisions already made for transporting, assembling, grading, cleaning, packing and marketing supplies, and a system for preserving the perishables by canning and the staples by storage in warehouses were described by the State College officials.

Representatives of the bankers' association stressed the point that safe banking and safe farming go hand in hand, and pledged their support to the extension of directed credit for marketing and distribution where it can be supplied safely for that purpose. Women representing the State Federation pledged their cooperation in behalf of the club's 20,000 members, and home marketing experts from the college discussed their phase of the proposition from a production viewpoint.

These meetings were attended in the aggregate by 379 bankers; 534 farmers, business men and visitors; 61 members of the State College of Agriculture's extension staff; 217 home demonstration agents, 4-H students, civic club and women's club leaders—a total of 1,191.

Legislative Action—Indiana

(CONTINUED FROM PAGE 24)

employees "shall be chosen for their fitness, either professional or practical, irrespective of their political beliefs", and "the technical or professional qualifications of any applicant shall be determined by examination, professional rating or otherwise", as the board of control of the Department may determine. These employees may be removed at any time, not more than one-half of them shall be adherent to any one political party and may not be directly or indirectly interested financially in any institution to which the act is applicable. In a word, the general organization of the Department follows that of a successful American business corporation, and it is fondly hoped by the membership of the Study Commission proposing the new system, that the tenure of office will be such that opportunity always will be open in the Department for the least employee to win his way by efficiency and character to the directorship of the Department, just as is possible in a modern business corporation.

Relying on its research findings, the Study Commission also is proposing to transfer the entire problem of chartering new financial institutions to the new Department, obviating permanently the political and other improper reasons for chartering new businesses that have contributed to bank downfall often during the hectic post-war years.

Another important change in the Indiana system is the proposal to transfer the present powers of liquidation of closed financial institutions from the costly and inefficient receivership basis to the jurisdiction of a trained and inexpensively operated personnel within the authority of the new Department. Great abuses have grown up in Indiana under the present receivership system, as shown conclusively by facts now in possession of the Study Commission. One study shows average cost of receiverships to have been nearly 11 per cent of total resources, while the existing Indiana Bank Commissioner's office, under many handicaps, has been able—through agreement with local authorities—to liquidate for an average cost of only 2½ per cent of resources. Receivership abuse in other businesses has already lent strength to the proposal for liquidation by the state department in Indiana, which has been backward in this phase of its authority over the financial field.

General powers of the new Department follow in some measure the recently-enacted New York law, but great modification has been proposed by the Study Commission in its desire to obtain flexibility, non-partisanship, and scientific administration for the state of its jurisdiction over these complex businesses.

Unusual powers in emergencies over such factors as withdrawals of funds are placed in the hands of the Department, and it is given broad general authority to make rules and regulations, not inconsistent with law, and by a three-fourths' vote of the board of control, over such matters as "regulating the methods and standards to be used in making examinations and evaluating the assets and prescribing the forms of reports of the several financial institutions", "for the establishment of safe and sound methods for the transaction of business by such financial institutions . . . and for safeguarding the interests of depositors, creditors and shareholders, generally, in times of emergency." The rule-making power gives "force and effect of law" to the body's orders and sets up penalties for violation.

Complete codification and carefully devised strengthening of Indiana's entire field of law governing such financial institutions is proposed by the Study Commission in its report to the Governor and the legislature, and in this strengthening much of the modern trend of law revision is apparent. Higher minimum capitalization and surplus-building, more flexibility of reserve requirements, minimum ratio between capital and deposit liability, clarification of published statements, additional responsibility of directors, more drastic loan limitations, and other advancements are suggested. The Study Commission has carefully attempted to avoid the vesting of arbitrary power in the hands of the new Department without recourse, and has proposed in the legislation that any financial institution to which the act will be applicable shall have the right to appeal to local courts from any order affecting its corporate integrity. Upon such appeal the court is given power to decide such questions *de novo*.

REGARD FOR MANAGEMENT

ANOTHER precept which has guided the Study Commission throughout its long considerations has been that good management cannot be legislated. As carefully as possible, the recommendations of the Commission have sought to leave good management free to function according to the dictates of its own sound judgment, without undue governmental interference. Responsibility to

the public, however, constantly has been kept in mind, and the revisions of law are advocated in the hope they will cure ineffective governmental supervision and thus work toward elimination of bad management, exploitation of selfish interests and dishonesty, from the financial institutions of Indiana. Only thus, the Study Commission believed, can the public be expected to have its confidence completely restored.

Advance is apparent along many lines of distinct advantage to the banks of the state in the new proposals. Legislative corrections of ancient restrictions on the business, which have no meaning now, are sought in the report.

And, as another benefit for the financial institutions of the state, the Study Commission's report, when it becomes generally understood by the Indiana public, will show clearly from its exhaustive research data, that even in the midst of the worst depression that the world has seen, the failure and loss record among Indiana banks is favorably comparable to the similar record of other types of business; that dishonesty within the profession of banking furnishes only a small reason for failures; that public understanding of the problems of the banking business is as necessary in rehabilitation of the social structure as is revision of banking practice; and that the sturdy principles which have upheld by far the majority of Indiana banks in the crisis are those which still are being relied upon to correct the present economic turmoil eventually.

New Books

FRANCIS H. SISSON, who has rendered distinguished service both to advertising and to banking, has written an introduction to "Advertising for Banks" by Don Knowlton (Rand McNally) in which he says: "In developing selling appeal for the valuable services they perform and in abolishing public distrust and misunderstanding, the banks have no more valuable weapon at hand than well directed publicity." He believes that "advertising . . . warrants the attention and study of banking circles, large and small, to the desired ends that banking may be both more profitable to its owners and more serviceable to the public."

Mr. Knowlton, who is publicity manager of the Union Trust Company, Cleveland, says that his book does not aim to tell banks what to advertise but how to go at it. He offers a great many illustrations and examples of effective advertising in papers, on billboards, in lobbies and through other media. He has worked in collaboration with Financial Advertisers Association.

THE NEW edition of the "Bankers Guide Book," edited by W. R. Morehouse, and published by the Bankers Guide Book Publishing Company, Los Angeles, answers more than 4,000 questions of current interest to bankers. It contains terse, concise information on a wide variety of subjects. Below, for example, are a few typical questions picked at random:

Question 5. What are the requirements of negotiability?

Question 515. What is the effect of a qualified acceptance upon the rights of the holder?

Question 1056. What kind of power of attorney can be recognized by a bank with safety in the payment of a deposit?

Question 2446. What are the general powers of the Federal Reserve banks?

Question 3215. What safe rule should every buyer on instalments follow?

Question 4033. What has been the experience of most banks as to the growth of home safe accounts?

One thing that gives this volume special value is the convenient indexing arrangement which makes it possible to obtain a desired answer quickly.

A Famous Ancestor Of the Bonus

"THE country would never grudge the money needed to aid them, but the demagogues who are backing this absurd grab in the interests of the claim agents will find that they are counting without their host if they think the honest soldiers' votes are to be won by this sort of disgraceful, hypocritical and corrupt action."

The New York Times editorial writer of May 28, 1886, was speaking of a progenitor of the present bonus agitation. Pension legislation of that period gave rise to hundreds of such expressions, sympathetic to actually deserving soldiers, but vitriolic against their exploitation by politicians.

Speaking of an "interminable raid on the Treasury", an 1881 Times writer states that "its ultimate beneficiaries are simply demoralized by becoming national mendicants, to their own obvious detriment and that of the highest interests of the country." Something like that has been suggested recently.

The New York Tribune of October 13, 1879, describes how "the city was profusely decorated with flags and the streets were thronged with people . . . to witness the parade of the Grand Army posts from Pennsylvania, New York, New Jersey and Maryland. The column was reviewed by Commander-in-Chief William Earnshaw of Ohio, accompanied by post commanders, staff and reviewing officers."

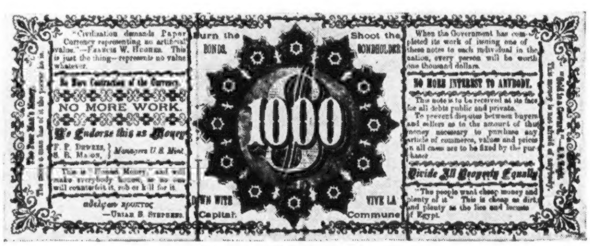
Commissioner Bentley of the Pension Bureau offered statistics after the gala parade showing that there were 244,548 pensioners requiring annually $30,000,000. Fifty years later the Bureau was handling almost twice as many pensioners requiring more than seven times as much money annually.

A Tribune editorial of the same period states: "Should the demagogues' plan to increase the pensions fail, they may pose before the country as the special friends and champions of the soldier. Should it succeed through the timidity of the politicians in Congress who do not dare antagonize it, it answers the purpose of bringing the finances of the country into straits that invite the financial tinker and quack into his favorite field."

COLLECTION OF FREDERICK VAN WYCK

Obverse of fiat money lampoon in 1880

The "favorite field" suggested is caricatured by the accompanying illustration of "absolute money, redeemable nowhere, in nothing and by nobody", more of which "may be had upon application at the U. S. Treasury."



Reverse. "The Poor Man's Money. The more a man has of it the poorer he is"

Political and editorial discussion fifty years ago regarding inflation and indirect methods of purchasing the soldier vote is surprisingly like that of today in spite of the lucid arguments that should have clinched the matter as long ago as the Thirty-seventh Congress, sitting in 1862.

At that time Congressman Owen Lovejoy of Illinois said: "It is not in the power of this Congress . . . to accomplish an impossibility in making something out of nothing. The piece of paper you stamp as five dollars is not five dollars, and it never will be, unless it is convertible into a five-dollar gold piece; and to profess that it is is simply a delusion and a fallacy." But the delusion is a persistent one.

Behind the Bond News

(CONTINUED FROM PAGE 5)

maturity date too far in the future.

Although states and municipalities have about $15,000,000,000 of bonds outstanding, they have, for the most part, made an enviable debt record, and bankers are anxious that this credit be kept prime. The better grade municipal credit has held under 4 per cent lately, or approximately half way between its high and low since 1895. Only an insignificant amount of the outstanding issues is in default, giving this class of security rank, in the American investment field, next to that of the United States Government, whose record, of course, is unsullied by default.

While bonds of such communities as Milwaukee, Albany, Baltimore, Buffalo and Syracuse are still, in yield, below the 4 per cent deadline, the primacy of the obligations of the largest municipal borrower—New York—has recently been questioned, with resultant damage to the market standing of the city's bonds.

THE NEW YORK CITY SITUATION

CONSERVATIVE by natural inclination, training and tradition, bankers as a class have hardly ever been crusaders. The heads of the principal New York banks would have preferred to deal over the conference table with the city officials in devising means of safeguarding the city's credit, but they found that this method would not suffice. They have had to deal with a well intrenched municipal administration, whose hold on its supporters has been gained not by the excellence of its financial policies but by the volume of expenditure it can control. For this particular administration decreased expenditures, such as a depression would dictate, mean diminished power and votes, and so it has bitterly opposed financial retrenchment.

In this situation the bankers were faced with the choice of allowing the city's obligations to go into default or to try, by appeal to the public, to bring enough pressure to bear on the administration to achieve their very reasonable aims. It is to the credit of the bankers that they have had the courage to defend openly the best interests of the city. A default by the city of New York would be extremely unfortunate, as it would tend inevitably to unsettle anew the entire bond market and magnify the already considerable difficulties to be overcome in surmounting the depression. Until genuine reductions are made in expenditures the bankers have indicated they will not give up the fight.

Thirty railroads have gone into receivership in the last three years, and seven of these are reasonably important lines, viz., Seaboard, Florida East Coast, Wabash, Ann Arbor, Mobile & Ohio, Norfolk & Southern and St. Louis-San Francisco. Heretofore the Wabash and St. Louis-San Francisco were roads which have demonstrated their ability to give a good earnings account of themselves when traffic is available in only fair volume and when prices are at higher levels.

A national policy is, perforce, necessary in dealing with this problem.

It would be possible to defend a policy of working from opposite directions—that is, of trying for a rise in prices the while the more grossly overcapitalized roads were put in better financial condition. But it is highly important that a national policy be drawn up and the public informed of its nature. There is still hope that the Coolidge-Smith commission on railroads will fill this need.

Government Guaranty of Bank Deposits

(CONTINUED FROM PAGE 15)

stockholders in a bank in one locality would be mulcted in loss to compensate for the mismanagement of banks hundreds and even thousands of miles distant and over which no mutual control or relationship exists."

A number of arguments are made in favor of the proposition; one is that it is simply an insurance measure and that it is a risk that can be insured against. This is not a sound argument. All insurance companies select their risks. Life insurance companies do not take people in poor health; fire insurance companies will not insure the houses of people who have a bad record of fire losses; title companies do not insure bad titles; liability companies do not insure a man who is continually having automobile accidents. The guaranty of bank deposits does not come within the ordinary rules of insurance.

TOO GREAT A PRICE

THE further statement is made that such a law would bring money out of hoarding. In the first place, the idea of the amount of money being hoarded is probably exaggerated, and those who hoard money because nothing but actual cash will satisfy them, will probably not be affected very much by the passage of any such proposed law. The effects of the law otherwise would be too great a price to pay.

The true and the sound alternatives to the guaranty of bank deposits are competent banking management, proper and adequate supervision of the banks by public authority, the freedom of the banks and bank supervision from political influences, and the activity and influence of organizations of banking institutions similar to the Clearing-house Association of New York City, an association that reveals and prevents faulty practices and unwise lending policies.

We trust that both Houses of Congress will refuse to pass any legislation as unwise and unsound as this.

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CONVENTION CALENDAR

A. B. A. MEETINGS

Jan. 26–27	Eastern Regional Savings Conference, New York City.
Feb. 14–16	14th Annual Mid-Winter Trust Conference, New York City.
June 12–16	A.I.B. Convention, Chicago.

State Associations

May 16–17	Missouri Bankers Association.
May 23–24	Oklahoma Bankers Association, Oklahoma City.
June 1–2	South Dakota Bankers Association, Mitchell.
June 5–6	Illinois Bankers Association, Chicago.
June 19–21	Iowa Bankers Association.
June 20–22	Wisconsin Bankers Association, Green Lake, Wis.
No Date	California Bankers Association, Pasadena.
No Date	Kansas Bankers Association, Salina.
No Date	Florida Bankers Association, Orlando.

Other Financial

May 13	Washington and Oregon Bank and Trust Officers, Spokane.

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The 1933 Deficit

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$38,000,000 below estimates. However, the chances are that these will show a yield exceeding the $197,500,000 estimate, for it will be noted that the stamp taxes on issues and transfers of stocks and bonds are far in excess of the amounts estimated. But this is conjectural; on the basis of the actual showing, that provision of the law will fail by $38,000,000 to do its part toward balancing the budget.

Thus we may put down the two items, $190,000,000 plus $38,000,000, and reach a combined total of $228,000,000 as the figure by which these two provisions of the law have failed to measure up to expectations. To these must be added the postal rate increase.

It was estimated that higher postage would yield enough to take the Post Office Department out of the red, or $160,000,000 for the year. It has failed signally and the old rates probably will be restored at an early date as a result. However, the Post Office Department is not running $160,000,000 a year behind; the Treasury's figures show that it is running approximately $132,000,000 in arrears. That deficit must be met, so to the $228,000,000 total we add the postal deficit of $132,000,000 and obtain a grand total of $360,000,000 as the prospective deficit, when estimated on the conservative basis outlined.

What else? Nothing—if the Treasury's estimates of higher income tax receipts hold good, as it seems likely they will, for these complete the law's provisions. They are as follows:

Increased income taxes:	
Individual	$178,000,000
Corporation	41,000,000
Administrative reductions	80,000,000
Gift tax	5,000,000
Manufacturers' excise taxes	457,000,000
Miscellaneous taxes	197,500,000
Total, excluding postal deficit	$958,500,000

Such were the estimates of last June. Assuming that the income tax estimates are correct and that the savings through administrative changes are attained (they may be surpassed), and putting down the ultra-conservative figures of the indicated yield of excise and miscellaneous taxes, the actual yield will be $730,500,000. Thus the new law fails by only $228,000,000 to balance the budget, excluding the postal deficit of $132,000,000. This, of course, assumes the accuracy of estimates covering the yield under the old revenue laws on which the new law was superimposed.

How Teamwork Can Be Stimulated Among Junior Bank Officers

IN the smaller bank, the matter of efficient team-work is a minor problem. Every one knows every one else: changes are rare: newcomers are quickly absorbed into the organization: all pull together under the eye of executives or the laggard is quickly spotted.

In a great metropolitan institution, however, the team-work problem is one of the greatest difficulties confronting management. With thousands of employees; constant changes in personnel; departments and branches scattered over many floors or over widely separated cities, a sound substitute must be found for the close personal relationships that prevail in village and small city banks, and the editorial staff of the AMERICAN BANKERS ASSOCIATION JOURNAL has been going behind the scenes in recent weeks to learn just how the job is done.

Although all these banks have a common goal—maximum service to customers at costs in keeping with sound banking—methods vary amazingly. To describe the whole procedure would be too complex a task for any one article, but the JOURNAL presents below the plan which is in effect in one bank and the proceedings at one specific meeting, in the belief that constructive interest may thereby be developed in an important banking subject.

Men and women from dozens of different branches participate in resulting discussions. They get to know one another and one another's viewpoints and experiences. They learn new ways of mutual helpfulness and develop a team spirit which could never be acquired in any other way. These meetings develop a healthy spirit of emulation and serve as a preventive of the jealousies and misunderstandings between the various branches which otherwise might be inimical to the best interests of the institution.

Other banks use other plans. There are social clubs and inter-department get-togethers and others. The American Institute of Banking is a powerful factor in engendering a cooperative spirit. It is not the mechanism but the product of the mechanism that counts, and the JOURNAL invites bankers to share with one another, through its pages, the results of their experiences with this important human problem.

SENIOR CLERKS' COUNCIL

THIS particular bank operates a branch system in Greater New York, the Bronx, Brooklyn and Queens. Its main office is in the Wall Street district, where about 1,200 people are employed, while some of its branches have only a handful of employees.

The problem of coordinating the work of these diverse branches and knitting the working organization into a harmonious whole is handled through what is known as a Senior Clerks' Council. Clerks, bookkeepers, paying, receiving and note tellers are eligible for membership. For convenience in meeting, the Council functions on a group basis, all members in Queens, for instance, meeting at some central point once each month. Each group selects its officers from its own ranks.

The purpose of the monthly meetings is to discuss the common banking problems confronting members, especially the new ones that are always coming up and that require decisions. There is generally one speaker, drafted from the officers of the institution or from some service organization, who deals with a specific topic of general interest. Then the meeting is turned over to the employees, who bring up questions for discussion. Here are some of the topics dealt with at a recent meeting.

CHECK TAX: How about the tax on A.B.A. checks? Should the customer pay tax on each separate check *plus* the bank's remittance check, or should the bank absorb this last item? Here a variation in policy showed up which will be subject to official ruling at the next meeting.

COLLECTION CHARGES: Should collection charges be allowed on items from the Federal Reserve Bank for messenger service? Many of these items involve collections at private homes.

SECURITIES: If a Bond has been left for sale at 95 and the market is 93, shall the bond be entered in the "safe-keeping" ledger or put in the strong-box with the selling order attached?

PROTECTION: This is a subject that always comes to the front in these meetings, and speakers from bonding companies, from the police department and from various protective agencies are in keen demand.

FRIENDS

THESE meetings are of course held after banking hours, and generally in some hall or public building away from the bank, so that every one may feel on an equal footing. The serious business of the session is preceded by an opportunity for renewing old acquaintances or making new friends among members of the organization.

The effect of these meetings upon improved customer relations has been very marked. Questions come up every day which involve inter-branch communication by wire in their behalf, and the spirit of harmony evidenced by the "Tom" and "Joe" relationship carries conviction to customers that there is the same warmth and cordiality in the management of a big, wide-spread institution as in a small rural bank.